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# FINANCIAL TIMES

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## NEWS SUMMARY

**GENERAL**

**Iran thrown into new crisis**  
Iran was thrown into a new constitutional crisis yesterday when the clergy dominated parliament stepped up its efforts to impose its own choice of prime minister on President Abolhasan Bani Sadr. A list of candidates is now to be drawn up by a commission, but even this compromise was put in doubt by Ayatollah Khomeini's decision not to send a representative.  
In Cairo, the former Shah of Iran was buried with the pomp and ceremony which President Anwar Sadat had promised. Back Page and Page 3.

**Carter threat**  
U.S. Senate subcommittee inquiring into the Libyan dealings of President Carter's brother Bill, might subpoena the President to testify. Kennedy and Carter, Page 4.

**Kagan to return**  
Gannex textile tycoon Lord Kagan is expected to be extradited from France to Britain tomorrow to face charges under the Theft Act.

**Envoy recalled**  
U.S. recalled its ambassador in Addis Ababa at the request of the Ethiopian Government after steadily worsening relations.

**Murder charge**  
Southwood police charged Russell John Hart with the murder of TV wedding couple Steven and Hilary Burroughs.

**Drugs man jailed**  
Crippled British student Gary Hayes, 24, was jailed for 12 years by a Greek court on charges of illegal use and sale of drugs.

**Sakharov plea**  
Exiled Soviet dissident Dr. Andrei Sakharov called for a political solution to the Afghan crisis in a statement smuggled to Western correspondents in Moscow. Soviet MIGs, Page 3.

**Islands' freedom**  
New Hebrides islands became independent nation of Vanuatu after 74 years of joint colonial rule by France and Britain.

**False award trial**  
Erwin Hearn, 57, was sent for trial at Ipswich crown court charged with dishonestly obtaining a Queens Award for his former company Kina Holdings.

**Cell hanging**  
Ian James Sherlock, 33, was found hanging in his cell at London's Brixton prison where he was on remand, charged with murdering his mother-in-law.

**Test drawn**  
England scored 209 for nine declared in their second innings to draw the Fourth Test against the West Indies at the Oval. Peter Willey was 104 not out.

**Heaven sent**  
Health officials are analysing mystery "droppings" - pellets about half the size of a pea - which are plaguing the Hampshire town of New Milton.

**Briefly...**  
Gunmen shot and wounded an army general and killed his bodyguard in Madrid.  
Angolan court sentenced 16 people to death for their part in a bombing campaign.  
Soviet court sentenced an unemployed man to eight years hard labour for an attempted hijack.  
Former Burmese Premier U Nu, 73, returned home after 11 years in exile.

**BUSINESS**

**Sterling off 1.6c; Gilts weaker**  
STERLING lost 1.60 cents on the dollar's strength and fears of a cut in Minimum Lending Rate this week. It closed at \$2.3705, recovering from \$2.3690. Its trade-weighted index was 75.1 (75.2). Page 27.



**DOLLAR** continued to improve against most major currencies following a further rise in Eurodollar interest rates and signs of a tightening of U.S. money market rates by the Federal Reserve. The currency closed at DM 1.7590 (DM1.7440), and its trade-weighted index was 84.1 (83.9). Page 27.

**GOLD** rose \$4 an ounce to close at a \$648.50 in London. Page 27.

**GILTS** suffered after recent heavy investment demand and as a result of sterling's easier trend. The Government Securities Index closed at 435 down at 431. Page 36.

**EQUITIES** were firm, and the FT 30-share index finished 3.8 up at 489.7. Page 36.

**WALL STREET** was up 2.47 at 927.0 before the close. Page 28.

**BRITISH NATIONAL OIL Corporation** announced a managerial reshuffle which includes the appointment of a new main board director for finance and planning. Back Page, Heather Field forecasts downgraded, Page 6.

**UK CIVIL AVIATION Authority** is to increase its charges by up to 30 per cent. In 1979-80, the authority made a net loss of £28.6m, nearly double that of the previous year. Page 7.

**A JOINT appeal** to the Government for greater financial flexibility over rising coal stocks is to be made by the National Coal Board and the Central Electricity Generating Board. Page 8.

**LABOUR**

**OBSERVER** journalists appealed to their U.S. bosses not to carry out the threatened closure of the newspaper. Page 11.

**YOUTH unemployment** could rise to more than 450,000 in 18 months' time, the Manpower Services Commission warned. Page 11.

**COMPANIES**

**LOCKHEED**, the U.S. aerospace company, suffered a net loss of \$26.6m (£11.2m) in the second quarter after writing off \$70m on its TriStar programme. Back Page.

**NATIONAL WESTMINSTER Bank** raised first-half 1980 taxable profits by £8.8m to £224.8m after higher bad debt provisions. Page 22 and Lex, Back Page.

**GRINDLAYS Holdings**, which has a 51 per cent stake in Grindlays Bank, saw first-half profits fall from £17.8m to £17.3m. Page 22 and Lex, Back Page.

## Government to give £25m for Immos microchip plant

BY PHILIP RAWSTORNE

Mrs. Margaret Thatcher yesterday announced that the Government is to give the National Enterprise Board a second £25m to establish the first Immos micro-chip production plant in this country.

The factory will be built in South Wales and is expected to provide about 2,000 new jobs in the next three or four years.

In further moves to stimulate industrial development and alleviate unemployment, the Prime Minister told the Commons grants of £8.1m are to be made to Dunlop to modernise its tyre factories in Birmingham and Washington, Co. Durham.

In addition, seven "enterprise zones" are to be established in older urban areas throughout the country, in which businesses would be offered generous investment allowances, tax and rating exemptions and reduced "red tape".

The designated zones are: the Isle of Dogs in London's dockland, Salford Docks and Trafford Park in Manchester, Speke on Merseyside, parts of Newcastle and Gateshead, Clydebank, the lower Swansea Valley, and inner Belfast.

Two other areas, one of them at Bilston, Staffs., are also being considered.

In successful schemes could cost £20m in capital allowances and £50m in loss of tax and rates revenue.

Announcing the decisions during the Labour censure debate on the Government's unemployment record, the Prime Minister said: "We are prepared to help the transition to higher productivity and to more jobs."

"What we are not prepared to do is buy a few extra jobs will have the guts to see it through," she declared.

Mrs. Thatcher reaffirmed the Government's main policy lines - tight monetary control, reduced public spending, no intervention in the exchange rate and further reductions in interest rates - "as soon as it is prudent to do so."

"The Government is determined to establish credibility for sound financial management," she said.

Mrs. Thatcher acknowledged the pressures on industry. But she said: "Industries must compete by their own efficiency of both management and workforce. It is no good demonstrating to keep yesterday's jobs. We shan't succeed."

Unemployment could not be solved by an assortment of palliatives, she said. Trade union attempts to protect jobs, and living standards had all too often caused more unemployment.

Mrs. Thatcher warned that if pay settlements exceeded the Government's 7-11 per cent monetary targets, there would be further inevitable increases in unemployment. "Too much pay means too few jobs," she said.

Continued on Back Page

Enterprise zone details, Page 6  
Parliament, Page 10  
Youth unemployment rise forecast, Page 11  
Editorial Comment, Page 20  
Profit by 1984 for Immos says NEB and £6m Government aid for Dunlop, Back Page

## Recession will worsen CBI warns

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

A STARK warning that the recession which has hit industry during the past few months will worsen sharply during the autumn was issued yesterday by the Confederation of British Industry.

Manufacturing companies expect to shed more workers, and also forecast further sharp declines in their home and overseas order books and in their levels of output. Profits and liquidity will also come under pressure as companies feel less able to raise prices and maintain competitiveness.

The CBI is calling on the Government to reduce interest rates quickly, enough to surprise international opinion and lower exchange rates. But leaders of the Confederation acknowledge that even this would have little impact on industry's forecasts of deepening recession for the next few months.

At the same time, a reduction in companies' investment intentions has led the CBI's economists to revise their forecasts for capital expenditure. They now predict that after falling by over 3 per cent in the current year, the volume of private manufacturing investment will drop by "nearer 10 per cent" in 1981.

This is based on the CBI's quarterly industrial trends survey, published yesterday. It shows that the 1 per cent cut

in interest rates last month has had virtually no impact on companies' optimism about the future.

Mr. James Clesminson, chairman of Reckitt and Colman and the new chairman of the CBI's economic situation committee, said: "This is as gloomy a picture as it is possible for anyone to paint. British industry is in recession and I fear things will get worse before they get better."

Calling for immediate cuts in interest rates, Mr. Clesminson said: "The Chancellor put the rate up last year in large jumps and he's now got to come down in the same manner - and the time is now. Unless he moves slightly ahead of what the market expects, sterling will remain at its very high levels."

Trying to sound one optimistic note, Mr. Clesminson added that the recession was at least forcing people to "make the connection between pay, productivity and jobs." People now understood the problems of inflation better. Considerably lower pay settlements now had to be negotiated this winter.

Two factors emerging from the survey which worry CBI leaders concern prices and the levels of stocks. The rate of price increases, particularly in export markets, is slowing slightly.

Continued on Back Page  
Details, Page 8

## Denmark issues sterling bond

By Francis Ghiles

DENMARK yesterday became the first non-sterling area foreign borrower to arrange to issue in London a domestic sterling bond since Iceland in December, 1982. The Danish move follows the removal of UK exchange controls last autumn.

The 25-year issue, which will raise £75m, is structured like a partly-paid gilt-edged security and does not resemble a Euro-sterling bond issue, of which there have been a number in recent years. It is being underwritten by four merchant banks and placed by a London broker.

This latest bond follows closely on the heels of two sterling convertible Eurobonds for Japanese borrowers, and a sterling dollar convertible Eurobond for a U.S. corporation underlines the increasingly international role of the London capital market.

Last month Sr. Romero Kolbeck, Mexico's central bank governor, travelled to London to discuss the possibility of his country's raising long term sterling debt - something which would help to lengthen the average maturity of Mexico's foreign borrowing.

In one respect at least the Sterling bond for Denmark resembles a "Yankee" bond issue - that is a dollar denominated bond for a foreign borrower raised in the U.S. domestic bond market.

Denmark's £75m bond carries a coupon of 13 per cent and has been priced at £98 per cent to yield 13.28 per cent. This compares with yesterday's average yield on 25-year gilt-edged stock of 12.65 per cent.

Other features which distinguish this bond from a Euro-sterling issue include: a lower commission, at 1 per cent, a much longer maturity period, the fact that the bonds are registered rather than in bearer form, and the essentially UK nature both of the placement and the underwriting group.

This includes Hambros Bank, Hill Samuel, Morgan Grenfell and S. G. Warburg. Most of the Danish paper is being placed by a broker, W. Greenwell.

Lex, Back Page

## Strike pushes BSC loss to record £545m

BY ALAN PIKE

LAST WINTER's national steel strike pushed the British Steel Corporation to a record £545m trading loss and the lowest level of production in its history.

These depressing results for 1979-80 announced by the corporation yesterday were accompanied by a warning from Mr. Ian MacGregor, its new chairman, that further cuts in BSC's operations must be expected.

Mr. MacGregor is reviewing BSC's activities completely. He will report to Sir Keith Joseph, Industry Secretary, on means of reducing its cash requirements.

Mr. MacGregor said yesterday that his review of capacity would "relate to more accurately to the perceived demand for steel and the opportunity ahead of the corporation" and would involve "an examination of further retrenchment, stock-reduction and economies in capital expenditure."

The Government has accepted that BSC will not meet its cash limits for this financial year and will need additional financial assistance to continue trading.

Yesterday's losses were some £100m greater than Ministers had expected even a month ago. The £545m loss - compared with £309m last year and £493m in 1977-78 - excludes extraordinary items of £1,239m associated with the write-down of fixed assets, closures and redundancies.

The corporation said last winter's steel strike accounted for more than £200m of the loss, and for decline of annual liquid steel production to 10.5m tonnes.

In the nine months before the strike, BSC achieved improvements in performance through manpower reductions, a higher rate of deliveries, and other economies. But their benefit was cancelled out by high inflation and the strong pound.

In its report on the accounts, Coopers and Lybrand, the corporation's auditors, said that "due to the continuing uncertainties of the steel market," taints of the balance sheet which they could not be satisfied that the amount of £1,673m "at which fixed assets are stated after the write-down will be recoverable out of further write-down will prove unnecessary."

## Post charges to rise

BY JASON CRISP

THE COST of sending a letter by post is set to increase by at least 2p early next year. And the board of the telecommunications division of the Post Office continued to argue yesterday about wide-ranging price increases of at least 15 to 20 per cent.

A final decision on postal increases has not yet been made. But it is probable that first-class post will increase by 3p early in the new year, while second-class post is expected to rise by 2p.

About 80 per cent of the costs of operating the postal services are labour costs, which have risen by 15 per cent this year.

Last night the board of British Telecom, the telecommunications division of the Post Office, continued its discussions on how to allocate the sharp increase in tariffs, which will be necessary to cover its costs. It is considering the introduction of a two-tier system which would charge business users more than domestic customers.

The Post Office admitted some months ago that its £1.5bn capital expenditure plan would probably exceed its cash limits by at least £150m. Since then, members of the Post Office Engineering Union have been awarded pay rises of 20 per cent - with a further 1 per cent in December.

Both the telecommunications and postal divisions of the Post Office are required to give the Post Office Users' National Council at least three months notice of any price increase. Last night the council expected to receive notification of a price rise in telecommunication before the end of the week.

## Allegheny raises Wilkinson bid

BY ANDREW FISHER

ALLEGHENY LUDLUM of the U.S. announced a firm offer yesterday for Wilkinson Match, in which it already holds a 44.4 per cent stake, securing the UK company's agreement with terms considerably higher than expected.

Wilkinson's shares gained 20p yesterday on the London stock market, closing at 180p after returning from Monday's suspension once the full details of Allegheny's bid were made known.

Having said a few weeks ago that it was thinking of offering 188p a share, the Pittsburgh steel products and diversified industrial company is now prepared to pay 187p cash.

Allegheny bought into Wilkinson, the razor and match group, profits of which slid sharply in its last financial year in a controversial deal some two years ago.

The offer values Wilkinson at just over £84m, taking into account both equity and loan stock. On an ordinary share basis the full bid gives Wilkinson a value of £53.5m compared with £48m on the terms first mooted.

As well as the offer for the Ordinary shares Allegheny offers 62p cash for the £1 cumulative preference shares and £91 of floating-rate loan notes for each £100 of Wilkinson convertible loan stock.

Allegheny rushed out the initial statement of its intention to bid after Wilkinson shares rose sharply on rumours that the U.S. company was preparing a move.

The Stock Exchange is still investigating the circumstances of that increase about the start of July to see if there was insider dealing.

Having seen profits slide from £18m before tax to £14m in the 12 months to March 31, Wilkinson is chary of making profit estimates for the next two years.

Lex, Back Page

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(Prices in pence unless otherwise indicated)

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Air Call	230 + 10	Thorn EMI	342 + 12
BPB	249 + 6	Arco Energy	444 + 14
Brit. Cattle	350 + 12	Berkley Exptn.	188 + 8
Brown (J.)	601 + 21	LASMO	685 + 10
Caledonia Invs.	318 + 10	Anglo Amer. Crp.	700 + 20
Dowry	226 + 7	Elandsrand	485 + 19
English China	113 + 3	Malayan Tin	830 + 35
General Accident	324 + 10	Stillfontein	806 + 26
GEC	478 + 10	UC Investments	865 + 15
ICI	270 + 5		
House of Fraser	141 + 6		
ICI	274 + 4		
Land Securities	187 + 4		
Land Securities	368 + 6		
Prichard Services	84 + 5		
Royal Worcester	302 + 9		

FALLS	
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Treas. 13pc 2000	(£30 pd.)
(£30 pd.)	£351 - 17
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## EUROPEAN NEWS



Cross-border communication. Gibraltar-style. Residents of the Rock speak to friends in Spain through the chain-link fence sealing the frontier.

## Spain drags feet over Gibraltar frontier

By Jimmy Burns, recently in Gibraltar

THE SPANISH Government is unlikely to reopen the frontier with Gibraltar before October at the earliest, even though both Spain and Britain decided earlier this month to continue negotiations on the British colony's future as agreed in Lisbon last April.

This view is gathering strength among senior Gibraltar officials who, although not present at negotiations between Britain and Spain, have been informed fully by the British Government at every stage.

Sr. Marcelino Oreja, the Spanish Foreign Minister, and Lord Carrington, Britain's Foreign Secretary, agreed in Lisbon on the lifting of border restrictions first imposed by Spain 11 years ago. Both sides accepted that such a move need not be tied to any specific conditions at first and suggested last June 1 as the most likely date to open the gates.

### Lasting agreement

At the time, Sr Oreja was reported to have over to the British view that an open frontier would create the spirit of consensus necessary for a lasting agreement on some of the more complex issues. Under Franco's rule, Spanish border restrictions were imposed to try to compel the local population, and Britain to accept Spanish sovereignty over the Rock.

In recent weeks, however, the Spanish Government has been backpedalling on the Lisbon agreement, apparently trying again to obtain political concessions before opening the frontier.

According to officials in Gibraltar, the Madrid Government is demanding that Spanish workers be granted equal status to their Gibraltarian colleagues as soon as the frontier opens.

Over the past year there has been a groundswell of pressure in the part of Spain immediately beyond the Rock, known as the Campo de Gibraltar, not only for the frontier to be opened but for Spanish workers to be allowed back into Gibraltar.

The Campo today is an area of high unemployment and Spanish workers would like to take back the jobs they held in Gibraltar before the frontier was closed. The Spanish view is that equal status in terms of wages, taxation and general job opportunities would make this possible.

However, Gibraltar officials have told Lord Carrington that the local labour market is too complex and fragile for Spaniards to be granted unlimited access to it immediately after the frontier opens.

### Equal status

One problem is the fate of the 3,000 Moroccans who replaced the Spanish workers after the frontier closed in 1969. Gibraltar has assured the Moroccan Government that these workers will be protected. Sr. Adolfo Canepa, Gibraltar's Minister in charge of economic planning, says that until Spain enters the European Community, Spanish workers will not have equal status to Gibraltarians and will face the same conditions as Moroccans. Meanwhile, Sr. Jose Bossano the leader of Gibraltar's Labour party, the political group with the greatest influence among the local workforce, has declared his "total opposition" to any attempt by Spanish unions to open branches in Gibraltar. "This would risk converting Gibraltarian interests to Spanish industrial policy," he said, and could be used by Madrid as a form of political pressure.

On all fronts, a feeling of déjà vu is creeping into Gibraltar, aptly epitomised by the latest summer cruise. Brightly coloured T-shirts with the inscription: "They're opening the frontier... mañana."

## Support is growing for Greece's Socialist leader, writes David Tonge in Athens

# Papandreou sheds his revolutionary image

AS HIS prospects of becoming Prime Minister increase, Mr. Andreas Papandreou, the Greek Socialist leader, is trying progressively to lay the belief that his PASOK party is a revolutionary one.

Six years ago he was proclaiming that if a left-wing party won the elections, it would need "clandestine groups of action capable of opposing the violence of the bourgeois"—a statement that his opponents continue to band round today. But the visitor to his house at Kastri, under the pine trees north of a sweltering Athens, finds a man who is not the threat he used to be considered.

The change in his tactics is particularly evident towards the European Community and NATO. Though he still says Greece should remain outside both organisations, the new thrust of his arguments is on working with Community institutions to protect Greece's interests.

He warns that he might take steps "contradicting some of the rules and regulations of the

EEC and leading to a reassessment and a restructuring of our relationship with the Community." But he also stresses that a government led by him would use its full weight at all levels in the EEC, that he intends to visit Brussels before Greece becomes the tenth member of the Community in January, and that he supports Spain's and Portugal's applications for membership in order to increase the strength within the EEC of the Mediterranean members.

Equally, there has been a shift in the party's policy towards NATO from the calls before the 1977 general election for an immediate ending of all links, to today's position that the dismantling of links and closing the U.S. bases in the country cannot be achieved overnight. Greece withdrew from the alliance's military wing in 1974. The present Government is pressing for re-entry but has run into problems with Turkey.

Elections have to be held within 15 months and PASOK's

star is waxing strong. With the economy stagnating, a wider read desire for change is evident, and Mr. Papandreou, 47, is a man who has never been out of the limelight. In 1977 PASOK won 25 per cent of the vote compared with the 42 per cent won by Mr. Constantine Karamanlis's New Democracy party. But Mr. Karamanlis is President now and the new Prime Minister, Mr. George Rallis, though able, does not have his charisma nor that of Mr. Papandreou. A large electoral swing is widely expected.

It is the possibility of power which is causing Mr. Papandreou, a man who has never minced his words, to set out to define how a government led by him would behave towards the EEC and NATO. After years of denouncing these organisations, he says, he has to avoid a crisis of expectations among his followers.

He has prepared the way by stating publicly that the U.S. no longer has the ability to project its power as it did when, in his view, it contributed to the



Mr. Papandreou: emphasising the practical

fall of his father's government in 1965, to the colonels' dictatorship and to the Turkish invasion of Cyprus.

He stresses the point in private, yet on the stump to the party faithful, he still denounces Western Europe as a "political and military extension of the

U.S." The differences in emphasis between the private and public stands reflect both the need to satisfy the strong Left-wing in PASOK and Mr. Papandreou's own mixture of Mediterranean socialist and practical politician.

But the growing weight given to the practical side is demonstrated by the stand he has developed on the EEC question. He continues to hold that the Community exploits peripheral economies like that of Greece, and he wants the issue of Greek membership to be put to a referendum. However, he says, this would not be on whether to break links with the EEC. Instead, the choice would be between Greece remaining a member or its developing a special relationship which would protect it in the fields of trade and capital movements. It is the latter which he supports, citing favourably the Community's agreement with Yugoslavia. However, he recognises that this could be blocked by Mr. Karamanlis who, as President, alone can call for a referendum.

## W. Germany stems flood of fleeing Turks

By METIN MUNIR IN ANKARA AND ROGER BOYES IN BONN

WEST GERMANY'S unilateral abrogation of its visa agreement with Turkey is expected to end what could be the biggest exodus of Turks from their homeland in recent times.

Some 100,000 Turks have applied for political asylum in the last 18 months. With the prospect of further applications, the West German Parliament was forced last month to approve the introduction of compulsory visas for visiting Turks. It will come into effect on October 5.

German officials say that Bonn consulted Ankara before the decision was made, and point out that the visa requirements also apply to Bangladeshis and Indians.

Bonn has played a leading role in co-ordinating the West's financial aid programme for Turkey and stresses that the restrictions do not breach EEC guidelines. Nonetheless officials admit that there could be "a degree of dissatisfaction" among Turks about the move which Ankara views as a breach of the spirit of its association agreement with the Community.

West Germany has been concerned about the growing number of Turkish "guest workers"—some of whom are working illegally—at a time when unemployment is increasing and economy shows signs

### TURKISH PRICE RISES SLOWING

THE WAVE of assassinations and riots in Turkey have obscured the Government's efforts to curb inflation. Recent figures suggest these efforts are succeeding, writes Metin Munir in Ankara. The wholesale price index went up by 2.7 per cent in June, the lowest rise in nearly 20 months.

Although the index shows a 61 per cent increase for the

first half of 1980 compared with 40 per cent a year ago, the rate of increase has been slowing considerably. In January, the month Mr. Süleyman Demirel, the Prime Minister, announced his economic stabilisation measures, the index rose 9 per cent the following month. But since then, the monthly increases have been 4.4 per cent, 3.5 per cent, 2.9 per cent and June's 2.7 per cent.

of slowing down. Including families, there are 1.2m Turks in Germany at present.

Interior Ministry officials also say that visa restrictions will allow them to monitor more carefully the influx of Turkish extremists—especially the right wing "Grey Wolves"—who have been causing some anxiety to German authorities.

Also applying for asylum are the extreme leftwing activists (who, like the rightwing, claim that their lives are in danger in Turkey) Alevis, a sect of the Shiite branch of Islam, and Kurds. Both these minorities claim that they are being oppressed in their homeland. Few applications have been processed because formalities

take between six and seven years.

Turkish and German authorities believe that the majority of the Turks who apply for political asylum in fact seek "economic asylum." Despite the huge western aid it has received this year to help it overcome its worst economic crisis Turkish unemployment stands at 20 per cent and is still increasing.

One German diplomat commented: "Perhaps a handful are really in danger of their lives. But the overwhelming majority are just running away from poverty and unemployment. They want jobs."

Turks started seeking political asylum in Germany in large

numbers in 1979. A sharp increase occurred this year. An average of 10,000 applications a month were received by German courts in the first six months. The Germans expect 25,000 applications between June and when the visa restrictions go into effect in October.

There are two reasons why the Turks have chosen Germany over other Western countries. Firstly there is a large expatriate Turkish community in Germany which can provide accommodation and guidance to the newcomers. Turkish workers in Germany make up some 40 per cent of foreign workers.

The second reason is the liberal German law governing political asylum. Applications have to be processed by courts and proceedings take many years. Until their cases are finalised, applicants are entitled to residence permits and relief money.

Mr. Süleyman Demirel's right-wing minority government has called Germany's abrogation of the visa agreement "an unfriendly act" and demanded that the decision be "softened."

After visa restrictions are imposed the German embassy in Ankara does not expect the flood of applications to end. It is in the processing of renting more office space to handle an average of 600 visa applications a day.

## Italy fears for tourism after kidnaps

By Rupert Cornwell in Rome

A RESURGENCE of kidnapping of foreigners holidaying in Italy is causing increasing alarm in the country's tourist industry, one of the main sources of foreign exchange for the national economy.

Three days after the seizure in broad daylight of three young German children staying with their families in Tuscany, a Swiss banker narrowly escaped the same fate yesterday when returning home from a beach barbecue close to San Teodoro in northern Sardinia.

Only the vigorous reaction of Sig. Dionigi Resinelli, a 39-year-old banker from Lugano, saved him from being taken prisoner by Sardinian bandits of the type which seized British engineer Mr. Rolf Schild and his family in August 1979.

But of the three West Germans there has been no word so far nor any demand for ransom. Police are dismissing theories that the kidnappers were behind the attack (an idea nurtured by the fact that the father of two of the missing children is a prominent West German television journalist). They tend to believe that a Sardinian gang which has previously operated in Tuscany was responsible.

So far, appeals by the Pope and the victims' family have been to no avail. But neither, happily for the Italian authorities, have there been signs of heavy cancellations of holiday bookings, after a summer which appears to have seen a decline from the record tourist levels of 1979.

The common belief is that the Tuscan episode may have been a mistake, that the kidnappers were aiming for members of the wealthy and aristocratic Corsini family, on whose estate the West Germans had rented a villa.

### Swiss resorts expect more foreigners

Stable exchange rates and an increase in domestic tourism are expected to result in a good summer season for the Swiss tourist industry this year, writes John Wicks in Zurich.

In a survey conducted by Union Bank of Switzerland almost all resorts expected as many, if not more, tourists than last year. Greater numbers are expected particularly from West Germany, the Benelux countries and Britain.

## Legacy of colonial mistrust for Vanuatu's rulers

BY PHILIP BOWRING IN HONG KONG

THE CONDOMINIUM of the New Hebrides came to an end at midnight in much the same circumstances as it came into existence 75 years ago—an uneasy and mistrustful compromise between British and French interests.

To the leaders of the republic of Vanuatu now falls the task of repairing the fissures created by a dual system of colonialism. The South Pacific Island group of 100,000 people has had the misfortune to be the living embodiment of the differences in attitude and Government between the British and French colonial systems. That such a comic-opera dual rule, involving separate police forces, separate schools, separate courts, separate legal systems, has not created even more havoc than it has is due to the fact that dual administration has often meant no administration in practice.

In recent weeks the remote and normally peaceful islands have been in the headlines of the world's Press because of the blood-and-thunder rebellion on the largest island, Espiritu Santo, led by the bearded figure of Jimmy Stevens.

The rebellion continues and demonstrates the key problems of the islands: the division between the elected, primarily English-educated, Government and certain French speakers and their colon supporters, the inability of the British and French to co-operate, and the illiteracy and backwardness of some parts of the territory.

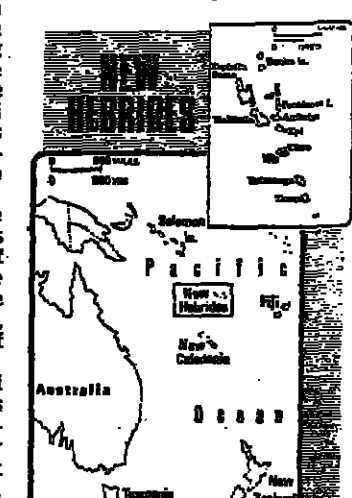
But Vanuatu has strengths as well as problems. It has a governing party, the Vanuatu, which is united, well-organised and popular. It won 98 per cent of the vote on a 90 per cent turnout in elections last November.

The party, whose leaders are primarily English-speaking and Presbyterian missionaries, has pursued a single-minded campaign for independence in the face of French hostility and British indifference. It is led by a quiet, friendly, but determined Anglican priest, Walter Lini.

Despite the Anglophone Francophone argument, the new nation is also united by a common language, Bislama, a Melanesian pidgin similar to that spoken in Papua New Guinea. The island, which the Coromandel Sea straddles an area 400 miles long and 150 miles wide.

help it govern. These have been denied to them by British and French disagreement. Now, with independence, the Lini Government is free to seek assistance where it can.

The Santos crisis has been a diversion from the problems of establishing a unified administration and finding ways of raising revenue to reduce reliance on the former colonists. At present the main export is copra, produced mostly on small foreign-owned plantations which have been the object of some nationalist hostility even though



there is no shortage of land on the islands.

Most agriculture is still of a simple subsistence type—not that subsistence is a problem in this tropical garden.

Among new economic activities, tourism has potential. The new state has unspoiled lagoons, underwater coral gardens, palm trees, and delicious coconut crabs. It has the remnants of U.S. wartime airbases—the battle of the Coral Sea was fought from the New Hebrides and the islands were the setting for "South Pacific." All told there are plenty of attractions for Australian tourists, once a direct air-link is established after independence.

The tax haven and offshore banking business in Vila, the capital, should grow with improvements in communications. Finally, there are the fish and other resources in the ocean, which lie within the 200-mile zone of the island group which straddles an area 400 miles long and 150 miles wide.

## Marcos seeks approval for budget of £3.1bn

BY OUR MANILA CORRESPONDENT

PRESIDENT Ferdinand Marcos yesterday asked the interim National Assembly of the Philippines to approve a budget of \$4.8bn pesos (about £3.1bn) for next year. That is about 13bn pesos more than the current budget.

The largest single head of expenditure, 25.4bn pesos, or 46.5 per cent of the total, will go to economic services: 13.1bn pesos will be spent on social services, 6.9bn pesos on general public services, 5.4bn pesos on peace and order, 2.9bn pesos on loan amortisation and interest payments.

### Warning by Zimbabwe farmers

BY OUR SALISBURY CORRESPONDENT

A WARNING about the future of commercial agriculture in Zimbabwe was made last night by Mr. David Spald, president of the Commercial Farmers Union, which represents more than 400 white farmers. Mr. Spald told the union's congress that new investment in com-

mercial agriculture had fallen by 50 per cent over the past three years. Short-term borrowing by farmers for seasonal crop finance had more than doubled over the same period.

Mr. Robert Mugabe, Zimbabwe's Prime Minister, is to address the congress today.

## Bonn setting the pace for Europe's Middle East peace bid

BY ROGER BOYES IN BONN

KING HUSSEIN of Jordan arrived in Bonn last night and thus became the second Middle Eastern visitor in a fortnight to interrupt Chancellor Helmut Schmidt's rain-soaked holiday in northern Germany.

Rarely has Bonn seen such a flurry of Middle East-orientated activity. The King's visit, for example, comes only days after that of Mr. Cheddi Kibbi, Secretary-General of the Arab League, who discussed with the Chancellor the European initiative on the Middle East and the Middle East mission of M. Gaston Thorn, the president of the European Community Council of Ministers which started yesterday. Last month, King Khalid of Saudi Arabia arrived in Germany with seven of his Ministers, and again the main theme was: how can the Europeans co-operate with the Arabs in the Palestinian issue?

So far, there have been few concrete answers. The fact is that the European Community's powers of persuasion over the Arab states are limited. But what is remarkable is how Bonn is rapidly breaking out of its inhibitions on Middle East policy, and is coming to play

leading role in formulating European policy towards the Arab nations.

It was, for instance, Herr Hans-Dietrich Genscher, the German Foreign Minister, who last year propagated the view that the Palestinians had a "right to self-determination." It was a useful form of words—Bonn had always maintained that East Germany be given a similar right—which was taken up readily enough by President Valéry Giscard d'Estaing during his tour this year of Arab countries. Herr Genscher's comments drew sharp criticism from Israel, and Germany insisted that it was simply following the European line. But German officials admit now that Bonn has been resolutely setting the Community's pace on the Palestinian issue, sometimes in tandem with Britain.

Until recently, Germany had taken a strictly functional approach to the Palestinians. But this view—"if there is a problem, it can only be solved by talking to everybody concerned"—was considerably broadened by the Middle East declaration from the European

leaders at Venice last month. The declaration called for a comprehensive peace settlement based on Israel's right to exist within secure borders, the right of the Palestinians to self-determination, and the need to associate the Palestine Liberation

King Hussein is due to begin talks with Chancellor Helmut Schmidt in Bonn today, as the European Community steps up its efforts to help find a solution to the Palestinian problem.

Organisation with any final agreement.

The policy restraints on Bonn have not gone away. Mr. Menachem Begin, the Israeli Prime Minister, made a point of singling out Germany for criticism after the Venice declaration, and several pro-Israeli Social Democrat politicians expressed their regret that the Palestine Liberation Organisation had been explicitly mentioned. However, Bonn's main fear was that the U.S. would interpret Venice as a tacit criticism of the Camp David process, which provides for a

phased peace in the Middle East based on reconciliation between Egypt and Israel.

Sensitive to U.S. feelings, Germany initially opposed the introduction of a European resolution on the Middle East at the United Nations, on the

grounds that it would deflect from the value of the Camp David process. But after further consultation with the U.S., Germany radically shifted its ground and started 10 days ago to put pressure on the other European Community members to introduce a Community resolution (speaking out the Venice principles) at the UN special assembly last week.

This change of policy was prompted by the realisation that the radical Arab states would introduce a resolution which would not mention Israel's right to exist. A Com-

munity resolution would, Bonn and the U.S. thought, sap support for the radical resolution, and prevent the isolation of the U.S. and Israel.

In the event, the European Foreign Ministers last week scotched the German idea, but M. Thorn made a statement to the UN Assembly reiterating the Venice principles.

Two principal, inter-related factors underpin Bonn's more confident policy on the Middle East. First, there is an overriding fear that the impetus for a Middle East peace will be lost in the tortuous period of the U.S. presidential elections. Herr Schmidt has already made clear that he considers that the Palestinian problem is as potentially explosive as the Soviet invasion of Afghanistan. Indeed, the problems are linked.

There is a need, German officials stress, to strengthen the balance of power in the Gulf states, and thus contain Soviet ambitions. Yet there is a degree of pessimism about how this strengthening can be achieved—except through increased trade with such countries as Iraq—unless other Arab countries are involved. The Euro-Arab dialogue can thus

also act as a bridge between the Atlantic Alliance and the Gulf states. But the basis of a Euro-Arab dialogue is a common language on Palestine.

The second element in the equation is the correct balance of dependence between the oil producers and the Europeans. Germany depends almost totally on imported oil, and this is expected to be reflected in current account figures to the tune of a DM 25bn (£8bn) deficit with Saudi Arabia. Bonn's principal oil supplier, has made Bonn a direct loan of over DM 5bn, and considerably more has been borrowed indirectly from Arab countries. Germany is also trying to encourage Arab purchases of German products and Arab investment in German companies, in an effort to recycle some of the surplus Arab funds.

Both King Khalid's visit and Mr. Kibbi's talks with the Chancellor left the impression that Bonn is rather favourably regarded by many Arab countries.

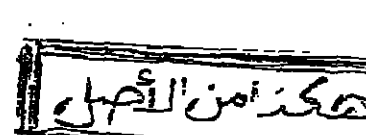
Much depends on the outcome of the U.S. presidential elections. If President Jimmy Carter is returned to power, the U.S. should be able to take a more active role much sooner

than if Mr. Ronald Reagan is elected. Through the European Community initiative, however, Bonn hopes the Community will have considerably more leverage with the U.S. and could persuade Washington to put more pressure on Israel to withdraw from the occupied territories. If Mr. Reagan becomes President, it is believed there will be at least a six-month run-in period before any movement on the Middle East—which would effectively prolong the time-span of the European initiative.

For the Europeans, the real diplomatic skill will be deciding when exactly to step out of the fray and let the U.S. take up the baton again. Bonn officials believe the Community has assessed its limitations realistically—a 12-month Euro-Arab initiative is not by any stretch of the imagination, going to destroy decades of Arab-Israeli and inter-Arab distrust.

War wounds take longer to heal.

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Egypt's President Sadat (right) in Field Marshal's uniform, escorts Iran's former Empress, Farah Diba, ex-President Nixon and ex-Crown Prince Reza Pahlavi at the Shah's funeral in Cairo yesterday

## Sadat keeps pledge to Shah and makes an Islamic point

BY ALAN MACKIE IN CAIRO

THE FORMER SHAH of Iran was buried in Cairo yesterday with the pomp and ceremony which President Anwar Sadat had promised. Mr. Sadat, sweating profusely in his Field Marshal's uniform in a temperature of 90deg.F, led the cortege on foot, from the Abdin Palace, where the Shah's body lay in state overnight, through the dusty backstreets of the medieval city. The procession ended at the Rifai mosque, the traditional resting place of Egypt's last kings.

Units of the armed forces, followed by some 60 wreaths, preceded the horse-drawn gun carriage which bore the Shah's bier draped in the imperial Iranian flag.

Heading the procession with Mr. Sadat, and looking completely composed, was the Shah's widow, Farah Diba, with their elder son, former Crown Prince Reza, as well as the former U.S. President, Mr. Richard Nixon, and ex-King Constantine of Greece.

The U.S. was represented officially by its Cairo ambassador, Mr. Alfred Atherton, France by its ambassador, M. Jacques Andreani and Britain by its chargé d'affaires Mr. Nicholas Barrington.

Israel's ambassador, Mr. Eliahu ben Elissar, made a surprise last-minute appearance and King Hassan of Morocco sent his Minister of Court Affairs, Moulay Hassab Alaoui, despite Mr. Sadat's declaration that no other Arabs were wanted.

For all Mr. Sadat's protestations that the funeral was a private affair between Egypt and an old friend, there is ample evidence that it was carefully planned to make a political point. One of the many banners displayed along the route summed it up: According to Islamic principle we bid the Shah farewell.

The idea that Egypt alone is keeping alive the true spirit of Islam, has a certain local appeal. A bystander told me: "We love everyone, Americans, Iranians, Israelis... and we want to live in peace. Referring to Ayatollah Khomeini, he used the most perceptive Islamic terms to describe an infidel."

There has been no discussions in the Egyptian Press of the Shah's policies in Iran. Newspapers here have dwelt exclusively on the fact that the Shah came to Egypt's aid in the war of October, 1973.

## OECD REPORT ON AUSTRALIA

# Oil and minerals promise 10 years of steady growth

AUSTRALIA SEEMS poised for a decade of sustained economic growth based on large-scale energy and minerals development, according to the latest Organisation for Economic Co-operation and Development report published today. But shortages of skilled labour are a potential obstacle, the report warns, and future growth could be jeopardised by any repeat of the wage and salary explosion which contributed to higher unemployment and low growth in the second half of the 1970s.

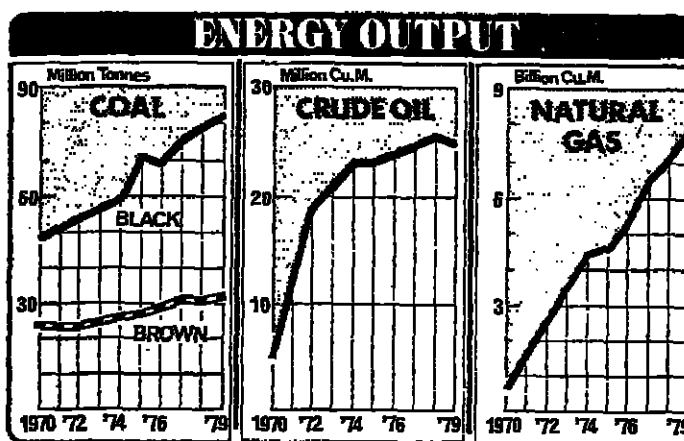
The report's general optimism recognises the contribution made by the Government's restrictive monetary and economic policies which have helped to reduce unit labour costs, increased Australia's international competitiveness, and led to a substantial improvement in the external balance. The current external deficit fell from just under A\$3.5bn (£1.7bn) in 1978 to A\$1.7bn last year. This trend seems to be continuing. The report blames external factors for the recent increase in inflation, but said the outlook is for a slowdown in price increases from the current 10.5 per cent. It also notes that employment prospects are improving as large-scale investment plans get under way.

The cost/price competitiveness of the Australian economy has improved substantially over the past few years, which partly explains the rapid growth in manufactured exports, the report says. Total exports of manufactures last year rose by 13 per cent in volume. Competitiveness in this sector is closely related to overall employment prospects, due to the capital-intensive, low-employment nature of the other main export sectors—minerals, energy and farm products.

The report warns, however, that should labour shortages and higher wages lead to what it calls "domestically generated cost/price distortions," then "much of the painful process of reversing earlier factor share imbalances would have to be faced again."

Restrictive monetary and fiscal policies, curbs on public sector spending and less than full inflation-indexation of wages have been key components of government policies aimed at providing a breathing space for private sector profitability and investment.

The beneficial effects of higher world energy prices for



Australia, rich in resources and energy, plus the improved investment climate, have led to ambitious plans for investment in minerals and energy.

Australia is one of only five Organisation for Economic Co-operation Development countries which have a positive energy balance, and is the member country with the largest absolute energy surplus. What is more, the report adds: "The overall energy situation is considerably stronger than that suggested by the current

degree of self-sufficiency, as present production levels bear little relation to known reserves... the range estimated from the Bureau of Mineral Resources data is from almost 1/600 for coal, 1/120-30 for natural gas and about 1/10 for crude oil."

Although energy is both cheap and abundant, government policy has been to align domestic prices with international levels.

The report praises this policy as the "essential basis for an

efficient energy policy." It points out that the growing cost of transporting raw materials and energy worldwide will by itself ensure Australia a considerable competitive advantage. The forthcoming investment boom will differ from the 1960s' mineral development, in that much new investment will be in such energy intensive mineral projects as aluminium smelting.

Thanks to its natural resources and international competitiveness, "Australia is better placed than many other countries to absorb the consequences... of weakening prospects for the world economy," the report adds in its conclusion.

Nevertheless, the international recession will be felt through "a reduction of export prospects, a continued rapid increase in import prices, a fall in the terms of trade of 5-8 per cent in 1980 and some uncertainty in the capital account of the balance of payments."

Wages and salaries are expected to rise by 12.5 per cent this year, from 9.75 per cent in 1979, while overall gross domestic product growth is expected to stabilise at around

2.5 per cent, the same as in 1979. Growth will accelerate to around 3.5 per cent in the first half of 1981 as investment projects gather pace. The current external deficit is expected to fall to A\$1.25bn from A\$1.7bn last year.

The report ends on a cautionary note. The major investment projects now planned will lead to large inflows of foreign equity and debt capital, a substantial increase in private fixed investment, substantial investment by government and public enterprise in infrastructure, utilities and energy, and a high level of export receipts and associated remittances.

All this could lead to growing inflationary pressures, and the report advises that "the inflation risk will be lessened the more rapidly the long-term policy of reducing protection is pursued." This task, it adds "would be rendered less difficult by the lowering of import barriers in partner countries on exports of most importance to Australia"—a clear reference to Australia's current dispute with the European Community.

By Anthony Robinson

## Ghana clamp-down on cargo line

BY OUR SHIPPING CORRESPONDENT

PRESIDENT Hilla Limann of Ghana has assumed personal responsibility for the management of the State-owned shipping company, the Black Star line, and called in the Ghanaian navy to control the ships.

The Government's actions follow a long strike and the breakdown of discipline in the country's shipping line which has led to the bulk of the fleet of 20 ships lying idle at Ghanaian ports. The company has run out of money, lost most of its senior management and many of its vessels have been arrested at foreign ports for non-payment of dues.

The Government has been investigating the affairs of the Black Star line for the last couple of years. With the breakdown of discipline many of the ship's officers were using the vessels to trade on their own behalf and this has led to difficulties for other companies participating in the UK-West Africa Conference (UKWAL).

It is understood that a subsidiary of a German shipping company, Deutsche Afrika-Linie has been asked to take over the management of Black Star. However, the financial details have not been settled and in the interim the Ghanaian navy has taken control.

Black Star is a member of the important UK-West Africa Lines joint service which handles the bulk of the UK traffic between the two areas. As a result of Black Star's problems shippers have been threatening to send their goods by non-conference operators.

Mr. Peter Earlam, chief executive of the conference, yesterday welcomed the move to restore order and discipline at Black Star. He said that he had been informed of the Government's intentions 10 days ago.

The Government has dismissed Black Star officers who had been on strike. The officers wanted salary increases of between 70 and 100 per cent, payment in foreign exchange

and 100 days a year holiday. Foreign crews will now be recruited to sail the ships if necessary.

President Limann said yesterday in a radio broadcast that he had dismissed the shipping line's officers who had refused to sail during a seven-week dispute and accused the officers of "holding the country to ransom" over their wage demands.

About 15 Black Star vessels are currently idle in the country's ports, six of them loaded with crucial exports including cocoa beans and cocoa products, shipping officials said.

President Limann said the Government prosecutor and police would be called in to investigate allegations of malpractice by officers.

The management dismissed striking officers before, but the Transport Ministry rescinded the dismissal orders when it seemed likely a few days ago that agreement had been reached to end the strike.

## Fourth day for Johannesburg garbage strike

By Bernard Simon in Johannesburg

RUBBISH BINS were overflowing in Johannesburg yesterday and streets were strewn with litter as a strike by municipal workers entered its fourth day. About 4,500 workers, a third of the council's workforce, have stopped work in support of demands for wage increases and recognition of their trade union.

Civic leaders met Mr. Fanle Botha, the Manpower Minister, in Pretoria yesterday to discuss the strike. The chairman of the city's management committee said after the meeting that no decisions had been taken.

The management committee has refused to meet the Black Municipality Workers' Union, which organised the strike and claims to represent 9,000 of the municipality's 15,000 workers. The authorities favour another union.

Violence continued in the eastern Cape yesterday. Two buses were set on fire in Port Elizabeth and police fired bird-shot to control crowds in a township.

## Soviet MiGs and gunships suppress Afghan mutiny

By K. K. SHARMA IN NEW DELHI

SOVIET MIG fighters and helicopter gunships have gone to the rescue of the Afghan Army to help put down a revolt, according to western diplomats in the Indian capital.

Two contingents of Government troops in the Ghazni region south-west of Kabul are understood to have gone over to the rebel forces last week. The fighting which followed was reported to have been the fiercest clash between the Government forces and the rebels since the invasion of Afghanistan by the Russians last December.

The revolt, led by a senior Afghan commander, forced the army to summon Soviet help and scores of MIG-21s and helicopter gunships were used before the rebels and mutineers were quelled.

The 14th Division of the Afghan Government forces and another unit at Kowt-Ashrow joined the rebels and suffered heavy casualties in the retaliatory action.

The revolt is believed to be linked with the factional fighting between the Parcham and Khalq groups in the ruling Communist Party which is gathering momentum daily. Diplomats say the commander who led the revolt belonged to the Khalq faction which is being ruthlessly suppressed by President Babrak Karmal. The commander's defection took place after he had been stripped of his command.

AP reports from New Delhi: Armed tribesmen have shot and killed a policeman in India's troubled north-eastern state of Tripura in an attack on a police camp. The tribesmen are said to want independence from India.

Reports reaching the capital yesterday quoted a police official as saying that about 20 tribesmen, armed with shot-guns, bows and arrows and heavy knives, launched the attack at Bogabil, about 40 miles north-east of the state capital, Agartala. Three other policemen were wounded.

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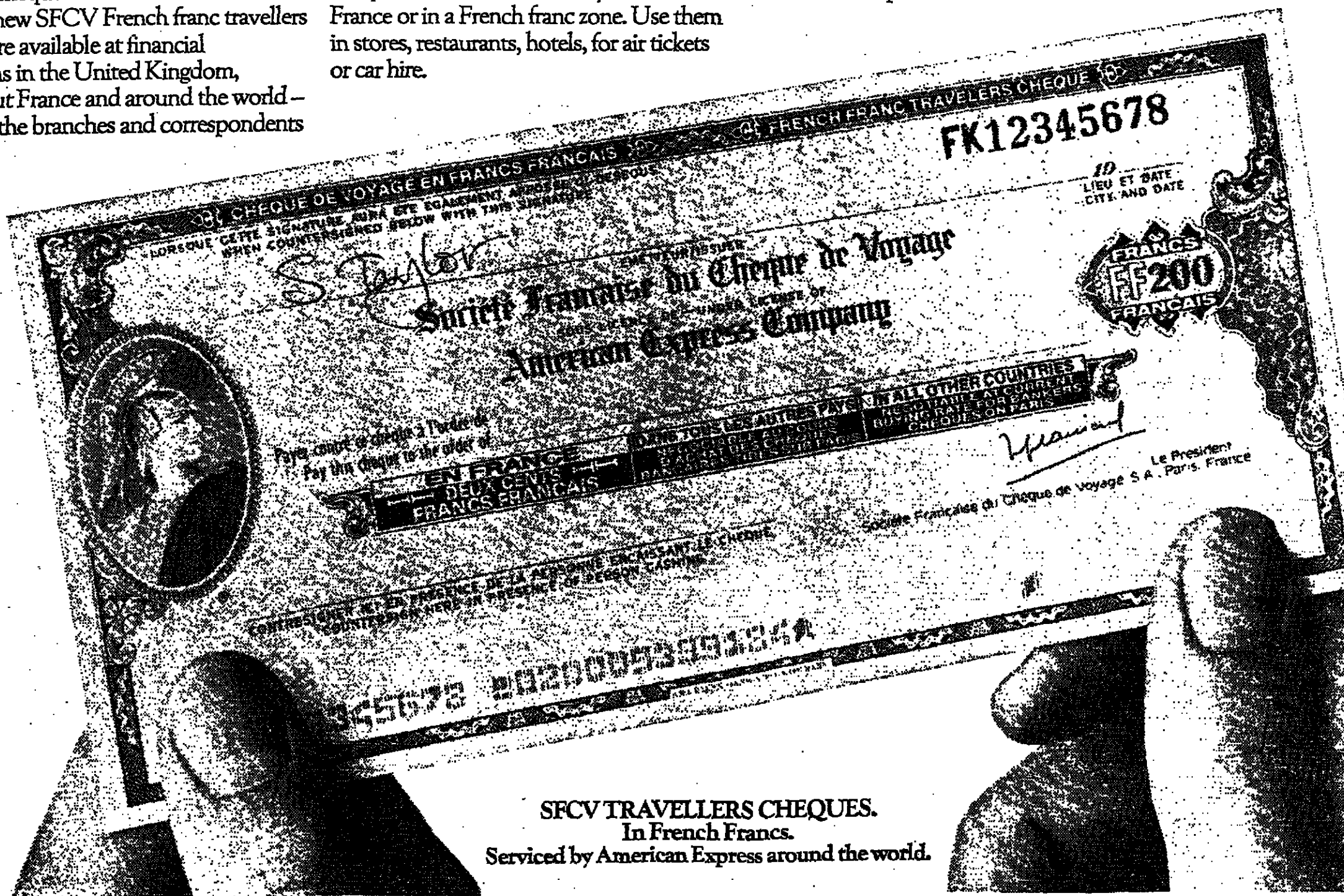
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## AMERICAN NEWS

## Kennedy and Carter bargain over delegates

BY DAVID BUCHAN IN WASHINGTON

BACK-DOOR negotiations are now taking place between key aides of President Jimmy Carter and Senator Edward Kennedy to try to prevent next month's Democratic convention becoming a political blood bath that could destroy the party's chances in the autumn election.

There will still be a fight between the two rivals, made more acerbic and uncertain by the new moves to let convention delegates keep their options open and possibly allow a third candidate to emerge.

But Mr. Paul Kirk, the Kennedy political director, said yesterday his candidate was pushing for delegates to be given more time to debate the crucial rules change, proposed by President Carter to lock up his nomination on the first ballot with his large majority of 2,000 nominally committed delegates. In return, the Kennedy forces are ready to drop some of their demands on policy issues, Mr. Kirk said.

Yesterday Mr. Jim Wright, democratic leader in the House of Representatives, came to the President's side in predicting that the move by rank and file Democratic Congressmen to open up the New York convention would "fizzle out."

## No end in sight to U.S. actors strike

BY DAVID LASCELLES IN NEW YORK

THE STRIKE of U.S. actors moves into its 10th day today with little sign of an end to the deadlock which has brought the U.S. film industry to a virtual standstill. Several locations abroad, including Britain, have also been affected.

The strike began at midnight on July 20, and involves nearly 10,000 members of the two leading acting unions. A spokeswoman for one of them, the Screen Actors Guild, said yesterday in Los Angeles: "We're digging in for what could be a long fight."

The strike is over pay, but the central issue is compensation for productions destined for new types of outlets like video cassettes, pay TV and cable TV, for which there is, as yet, no established procedure.

The unions originally wanted 12 per cent of the takings, leaving out the initial salary, and then scaled this down to 6 per cent. The producers countered with an offer of 3.6 per cent, but hedged this about with conditions which the unions say makes the offer meaningless.

## Immigration officers see arrested Iranians

WASHINGTON—U.S. Immigration officials have been called in to interview dozens of Iranians still being held here because they refused to give their names after being arrested during demonstrations.

District of Columbia police said 189 Iranians, mostly supporters of Ayatollah Khomeini, were arrested on Sunday on misdemeanor charges following clashes with police and anti-Khomeini Iranian demonstrators.

Although they could have been released upon producing identification and paying a small fine, most of the demonstrators refused to give their names, police said.

The first group of demon-

strators appearing in court tossed a bloody flag on the defence table. The demonstrators, who pleaded not guilty as "John Doe," claimed they were mistreated in jail but prosecutors said their wounds were from Sunday's protest.

Judge John Hess set bail at \$250 for each demonstrator, with the condition that they identify themselves before being released. He scheduled the trial for August 18.

The demonstrators were warned that they could lose their visas by refusing to cooperate with police, according to officials of the Immigration and Naturalisation Service. About 50 pro-Khomeini Iranians who were not arrested began a hunger strike in their support.



## Belaunde frees Peruvian Press

By Dorcen Gillespie in Lima

PERU officially returned to a Democratic Government on Monday when Sr. Fernando Belaunde Terry was sworn in as constitutional President before the newly reopened Congress and almost 100 delegations from foreign countries and international organisations.

The inaugural ceremony ends 12 years of rule by the armed forces, who ousted Sr. Belaunde in a coup towards the end of his first term of office in October, 1968. President Belaunde, 67, leads the Action Popular Party and was re-elected in a landslide victory against 14 other candidates on May 18.

In a 60-minute message to the nation, he promised to uphold the constitution and to restore human rights and freedom of the Press. Yesterday he returned seven daily newspapers expropriated in 1974 by the military Government to their original owners. Legislation will also return two television stations to private ownership.

Pera's new President has taken over a country still in the grip of an economic crisis. Sr. Belaunde said Peru's high inflation, which he estimated would reach 70 per cent this year, was the result of uncontrolled overspending by the previous regime.

Although his speech gave a broad outline of his Government's plans, he did not announce detailed economic policies.

These are to be announced next month by Dr. Manuel Ulloa, the new Prime Minister and Minister of Economy and Commerce.

President Belaunde said, however, that the copper, zinc and iron mining industry will be the key to Peru's economic recovery, generating foreign exchange to pay off the country's "excessive foreign debt," now standing at nearly \$8bn. He said State companies which are operating efficiently will continue to be operated by the Government, if Congress agrees, and that medium-scale and small scale mining, which is mainly in private hands, would be promoted.

The President said the minerals marketing system (headed by Minirepeta Commercial, the State marketing company) would be reformed to ensure maximum efficiency. He added that foreign capital would be necessary to develop new mining projects.

President Belaunde's message stressed education, health and housing as main priorities, as well as increased agriculture—mainly the development of jungle land and irrigation projects.

## WORLD TRADE NEWS

## Japan exports 55% of car production in first half

TOKYO — Japanese motor vehicle exports soared by 37.9 per cent in the first half of 1980 to a record 2,938,000 vehicles, the Japan Automobile Manufacturers' Association announced yesterday.

Exports in the six-month period represented more than half of total production, which the association last week said also rose to a record level of 5.28m.

These exports were valued by the association at \$12.46bn (£5.26bn), including spare parts, a sharp rise of 31.7 per cent compared with a year earlier. The sharp rise in exports is likely to intensify calls for export reductions among Japan's major trading partners.

In the first half of 1980, exports to the U.S. market jumped 32.2 per cent compared with a year earlier to 1.28m. Exports to the EEC went up 24.6 per cent, including a 49.3 per cent rise to West Germany and 14.6 per cent to Britain.

On a monthly basis the rise in exports was less dramatic. June's 514,900 vehicles were only 3 per cent more than in May, though almost 55 per cent

above the 1979 June figure.

The association said that in June the Japanese share of the U.S. market stood at 21.9 per cent which—though this was high compared to the 7.5 per cent share of the American market taken by European cars—was below May's record of 23.4 per cent.

The proportion of sales in West Germany was 15.5 per cent while in Britain, Japanese manufacturers took 12.3 per cent of the market.

The Middle East continues to be an expanding market for Japanese manufacturers who pushed their exports there up 60.8 per cent in the six-month period, with Saudi Arabia accounting for a large number of the 284,700 vehicles shipped to the region.

In London, unofficial figures showed that in July Japanese car manufacturers outstripped the national maker, British Leyland with 18 per cent of sales compared with Leyland's 17 per cent. Datsun alone was said to have taken 12 per cent of the British market.

Japan's share of the fully-

assembled imported car market in Australia climbed to 84.4 per cent in the year ending June 1980, up from 76.1 per cent the previous year. AP-DJ reports from Canberra.

● Anne Hope writes from Detroit: The world could have a glut of small cars within five years, Mr. Masataka Okuma, vice-president of Nissan, told the World Congress on the motor industry in Detroit. He said there would be increased production from traditional motor manufacturers, but also from Brazil, Mexico, Korea and Taiwan, as well as the Soviet Union, Poland and China.

Mr. Okuma added: "In the U.S. Japanese imports are perceived as a threat but to Japanese car-makers what is frightening is the tremendous scale of resources U.S. manufacturers have at their disposal. In the next five years the American 'big three' will invest \$80bn (£33bn) to develop small cars. This investment will be a heavy financial burden for U.S. makers but it will arm them with sufficient competitive strength to threaten our existence."

## Davignon in Washington talks

WASHINGTON — Viscount Etienne Davignon, the European Community's Commissioner for Industrial Affairs, will be in Washington today to discuss steel, cars and other international trade issues with Carter administration officials.

U.S. international trade negotiator Reubin Askew will meet Davignon and Community aides today to discuss trade problems. "Obviously, this will include steel," a U.S. official said.

During his Washington visit, Viscount Davignon also plans to

discuss steel issues with representative Charles Vanik, chairman of the House Ways and Means International Trade Subcommittee. Both would like to see the Carter administration to resume the trigger-price system for steel imports.

● U.S. fact-finding missions checking on steel prices in seven Western European countries as part of a major U.S. steel import inquiry are due to complete these projects by August 14.

The U.S. Commerce Department, investigating dumping charges by U.S. steel against West Germany, France, Britain,

Italy, the Netherlands, Belgium and Luxembourg. Teams of experts have been sent to EEC countries to verify prices and costs of the European producers.

Carter administration officials said it is still too early to predict whether the findings of these missions would provide leverage, to restore the "trigger-price" system for steel imports.

The EEC and Japan are both awaiting to see how the Carter administration resolves the steel import problem, but it may take until early September to clarify this.

## Boost for Mexico-Brazil ties

BY DIANA SMITH IN BRASILIA

THE THREE-DAY State visit to Brazil of President Jose Lopez Portillo of Mexico is expected to give a strong boost to efforts by both countries to complement their industries and to increase exchanges of raw materials and manufactured goods.

The visit began on July 28. It marks the end of a year of intensive negotiations between Brazilian and Mexican enterprises striving to overcome previous ignorance of one another's industries and mineral resources and to pinpoint important deals. Oil, inevitably, looms large in the aspirations of the Brazilians, who depend on

foreign crude for 80 per cent of their consumption—but the budding relationship between the two covers a wide range of possibilities that should, in a few years' time make them particularly active partners on the Latin American scene.

Two-way trade of \$500m in 1979—compared with trade of only \$30m a decade ago—shows that energetic efforts to strengthen commercial ties are already paying off.

One Brazilian industrial concern, Copaf of Sao Paulo, managed to sell \$30m (£12.5m) of seamless steel tubing to Pemex (the Mexican state oil company) last year, while Brazilian businessmen hope to

bite into a market that depends on the U.S. for 75 per cent of its imports.

Mexican businessmen seem less inclined to investigate the Brazilian market—but the Brazilians hope that President Lopez Portillo's visit will spur on the hundreds of so Mexican business representatives accompanying him. Substantial agreements are in the offing for sales of Brazilian iron ore and bauxite, and purchases of Mexican copper concentrate, zinc and sulphur.

Mexican and Brazilian officials say both countries want to build up their partnership to reduce trade and technological dependence on the U.S.

## DC-11 prepared for take off

BY MICHAEL DOWNE, AEROSPACE CORRESPONDENT

MCDONNELL DOUGLAS has taken a major step forward in its plan eventually to launch a new 178-seat, long-range jetliner, to be known as the DC-11. The project, which is called the Advanced Technology Medium Range (ATMR) transport.

The company, which is formally committing the ATMR to production is that it has renamed the project, calling it the DC-11. When it goes into production, it will be called the DC-11.

Douglas is known to be close to an order from at least one major U.S. domestic airline—

believed to be limited—probably for 30 aircraft with more on option.

The new jet will be a short-to-medium haul aircraft, seating 178 passengers in a twin-aisle cabin, in a 2-3-3 configuration. In addition to new jet engines (Pratt and Whitney JT-10Ds), there will be other technological advances in the use of new materials, and fuel-saving design shapes.

Douglas is also discussing the possibility of international collaboration on manufacture of the aircraft, with European, Japanese and UK companies.

## TRADE WITH FRANCE

## Britain narrows gap despite strong sterling

BY TERRY DODSWORTH IN PARIS

THE RECENT polemics about British exports to France have tended to obscure the fact that the French have been making greater progress in bilateral trade recently. During 1978 and 1979, France's trade with the UK was down 1.7 per cent, compared with 1977 and 1978, France's trade with the UK was up 1.7 per cent, compared with 1977 and 1978.

This position might have been expected to have slipped further in France's favour this year because of the difficulties of exporting against a strong pound. The figures, however, show exactly the opposite. Whatever British exporters may have been saying about the damaging effects of having a strong currency, it is not so far away from the truth. The figures show exports to France in the first four months of the year, according to the UK statistics, rose by about 4.4 per cent—considerably more than the rate of UK inflation—to reach almost £1.2bn.

## North Sea oil is only part of the story. UK companies have been putting additional efforts into exports because of the slump in their domestic market.

North Sea oil, as might be expected, has played a significant part in this reversal. Exports in the four-month period rose by 80 per cent to almost £1.2bn, while imports in the same category went up by only 23 per cent to £872m. In effect, the oil "gap" in France's disfavour has shot up from £17.6m to £63.6m.

Britain's fortuitous strength in the oil sector, however, is only part of the story this year. During the first four months, non-oil exports from the UK raised their sales by 31 per cent. In the same period, French exporters lifted theirs by only 19 per cent, losing ground in overall value terms by an increase of £224m against a British advance of £245m.

It is impossible to evaluate from the figures how much of this improvement in the UK performance comes from price increases following this year's rapid inflation as against an increase in volume sales or market share. But observers in France believe that UK companies have been putting additional efforts into exports this year because of the slump in their domestic market. Circumstantial evidence indicates that there has been a real advance in some sectors.

The hard-pressed British vehicle accessories industry, for example, has been among the best performers this year. Exports went up by almost 45 per cent in the first four months to £26m. Similarly, the civil engineering sector companies staged a big improvement, pushing up sales by 37 per cent to £22m, while both the works trucks and handling equipment manufacturers showed increases of more than 100 per cent, though on a much smaller base. Even Britain's agriculture has been doing quite well: despite the row about lamb exports, the UK has been steadily increasing its penetra-

There must be questions whether British industry can maintain its performance after the summer holiday when the French economy is expected to hit an exceptionally sticky patch.

In some sectors, like oil, Britain should remain well-placed. In others, like vehicle components, the fight for markets will become tougher as French industry itself follows the rest of the world into recession. But while the climate becomes more difficult for UK exporters, the same will be true for French companies selling in Britain. Exports are a two-way business, and it is the response to the crisis by companies on both sides of the Channel which will determine the final balance.

Mr. Michael Manley's Government is still managing to stave off the total collapse of the economy, writes Canute James in Kingston

## Jamaica struggles to survive in a world without the IMF

MR. RALSON SWABY is one of the losers in Jamaica's dispute with the International Monetary Fund and commercial banks, which has had serious effects on the Caribbean island's economy.

Until recently, Mr. Swaby worked in a Kingston furniture factory, earning J\$55 (£13) a week. But the island's lack of foreign exchange forced Mr. Michael Manley's Government to curb imports, and the squeeze on imported timber cost Mr. Swaby his job.

## Garden work

He now subsists on gardening work two days a week in suburban Kingston. His common-law wife and their three children are supported by his relatives in Portland, on the north coast, who send food each week.

Mr. Swaby himself left there for Kingston seven years ago, seeking a better life. "I think I will go back to the country. At least I know I will not starve there," he said at the end of another day in which he failed to find a job.

The Jamaica Manufacturers' Association says that, since January, 75 factories have closed, adding 5,250 to the total of unemployed. Nearly a third

of the labour force of 800,000 are now out of work.

Many others in Mr. Swaby's position have become small entrepreneurs. There has been a proliferation of small roadside shops offering a range of items like cigarettes, home-made fruit juice, and imported rice.

Hope for improvement in the quality of life for most of the 2.1m population hangs on what the island's Government can do to regenerate the economy without help from the International Monetary Fund.

More problems were created for the already battered economy when Jamaica failed to obtain the \$32m loan it expected from the U.S. and Britain. Jamaica has been surviving on a handful of small loans and slightly higher than expected export earnings.

The loans have helped to stave off the total economic collapse predicted since the Government last obtained assistance from the Fund nine months ago.

Mr. Hugh Small, the Finance Minister, said over the weekend that the British Government will not be honouring pledges made to Jamaica last year, and the U.S. will not be offering assistance which the Government was expecting. This, he

said, will lead to further budgetary adjustments.

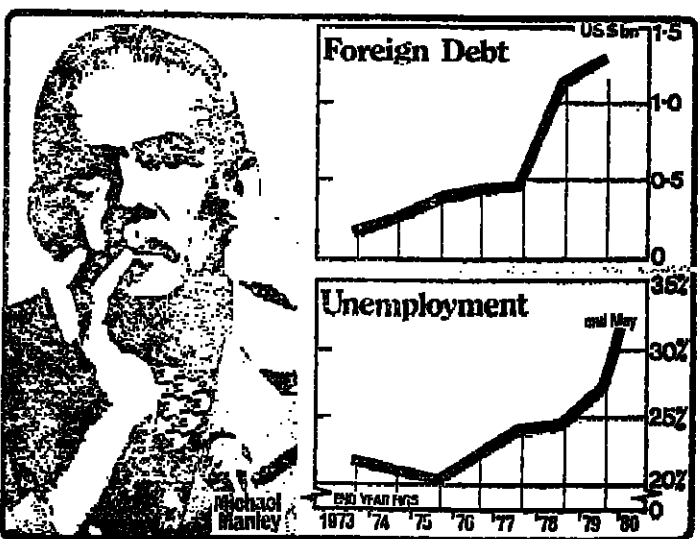
Jamaica's short-term debts now exceed foreign exchange reserves by \$500m, and one of the actions Mr. Small will contemplate is further restrictions on imports.

## Test case

Jamaica is being regarded as a test case of a country seeking a way out of an economic quagmire without the Fund's assistance, and without loans from international banks, which have said they will not help until Jamaica goes back to the Fund and obtains its "seal of approval."

The Administration earlier this year ended its talks with the Fund on a loan agreement, saying the conditions would lead to social and economic chaos. A previous agreement for \$400m in loans over three years was aborted last December when the foreign exchange deficit was \$100m more than the Fund said it should have been.

The island needs \$430m in credits in the short term. Mr. Percival Patterson, the Foreign Minister, says more than half has been obtained. His calculations



A Central Bank spokesman says reserves now in hand will guarantee some element of economic stability until mid-September. "After this, he says, 'it will depend on the loan from Venezuela, in addition to earnings from bauxite. If the Venezuelans do not approve the rebate, then we will be in quicksand.' The stability which the economic planners are claiming is

more apparent than real. The Government has had to adopt the economy to siege conditions. That the limited foreign exchange in hand has lasted so long is the result more of tighter fiscal management and a reordering of priorities than of an improving economy.

## Oil imports

The Government has managed to maintain payments on its \$1.3bn external debt—\$450m from commercial banks and most of the rest to the fund—to buy oil, imports of which this year have been reduced to 16m barrels, 18 per cent less than last year.

The remainder is being used to import food, such as rice and flour, to ease shortages which were chronic earlier this year, and for raw material and machinery for the bigger factories, which employ large workforces, contribute significantly to government revenue and can earn foreign exchange.

Mr. Michael Manley, the Prime Minister, has said the economy needs total refinancing of \$750m of its foreign debt to allow breathing space for economic reconstruction to begin. Mr. Small failed earlier this

year to obtain substantial rescheduling of the debt to commercial banks. There was, however, a subsequent agreement allowing the island to "roll over" principal payments on 87.5 per cent of the debt, while interest payments on the total and principal repayments on the remaining 12.5 per cent are continuing.

Much hangs on the outcome of the general election, which it now appears may be held by the middle of October.

It is possible that whichever

party wins will go back to the International Monetary Fund. Jamaica has not withdrawn its membership.

"This means that Mr. Manley is keeping the door open," says the Central Bank official. "The commercial banks are not willing to give any help without an agreement with the Fund being in place. And the fund is the only place where we can get quick cash in sufficient quantities, and cheaply, to keep things going. We cannot live for ever on commercial loans."

## Foreign cars recalled

WASHINGTON — Four foreign car makers have announced the recall of a total of 152,287 cars for various defects, the U.S. National Highway Traffic Safety Administration reported yesterday.

Subaru has recalled 71,000 of its 1980 hard top hatch back sedans and estate cars because of a windscreen wiper problem. BMW has called in 68,000 1977-78 two-door 320i sedans to correct a defect in an accelerator control spring which could keep the throttle from returning to idle.

Fiat has recalled 13,000 1970 X 1-9 models because of potential engine hesitation that can result from petrol evaporation in the carburettor. Volkswagen has recalled 2,287 1980 Vanagon models because of a potential defect in a heater-exhaust pipe.

The Safety Administration also announced that Toyota Motor Company has paid a \$10,000 civil fine for selling pickup trucks with fuel tanks that did not comply with U.S. federal safety standards. AP-DJ

مكاتبنا في لندن





# The Strada

## Handbuilt by robots

**FIAT**

**Sir Michael  
obviously knows  
a good idea when  
he sees one.**



## Reviving the inner city by removing the red tape

**BY RAY DAFTER, ENERGY EDITOR**

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Mr. Littman said that, according to Mr. Moran, Mr. Archer had first told him that he would

be the second largest manufacturer of the devices in the world, with production exceeded only by AT and T.

Facel has agreed on a reciprocal arrangement to exchange licenses on a royalty-free basis with AT and T, Western Electric, and AT and T's Bell Laboratories research centre.

The agreement covers existing patents and those to be issued to any of the participants in the next five years. The range covers multiplexing equipment and data terminals as well as modems.

Union Oil would not comment on the reserve estimates yesterday. But the operator's own uncertainties are reflected in the range of reserve figures presented in the Department of Energy's "Brown Book" of oil and gas statistics. These put Heather's reserves at 83m to 117m barrels.

Wood, Mackenzie says that in 1982 Heather's peak production rate will be nearer 30,000 barrels a day rather than the 25,000 barrels previously estimated. At the same time, it is estimated that Occidental's Piper Field will reach a peak output of no more than 90,000 b/d rather than the previously forecast 110,000 b/d. Like Heather, Clay-

Last summer it was thought that this year's average level of UK output would be 2.04m barrels a day—well in excess of domestic oil consumption levels. Now it is reckoned that the average will be no more than 1.66m b/d, slightly below the level for self-sufficiency. Output from 11 of the 16 commercial fields was expected to be lower than previously forecast because of development delays and reservoir problems.

**A NEW** pipelaying technique has enabled Chevron Petroleum (UK) to instal 10.5 miles of gas pipeline in the North Sea in three weeks, a record time.

The pipeline forms part of the Ninean Field development project costing an estimated £1.37bn, one of the biggest field operations in the North Sea.

The pipe was laid between Ninian and the gas-gathering system which links fields around the Brent Field with the Scottish mainland.

Mrs. Thatcher said two more sites might be announced later. One will be in London, where the decision to create an enterprise zone in the Isle of Dogs will be bitterly resented. It is a victory for Mr. Nigel Brookes, chairman-designate of the docklands urban development corporation, who persuaded Mr. Michael Heseltine, Environment Secretary, to put a zone inside rather than outside the derelict docklands. This has been done at the expense of other strong candidates in London—notably Shoreditch, Wandsworth and Hammersmith. Docklands now has an Urban Development Corporation as well as the enterprise zone within its area, while the rest of London has neither of these means of attracting aid.

The experiment will run for 10 years initially and the only cost put on it so far has been 100m—an estimate of what the government will have to pay local authorities to compensate for lost rates.

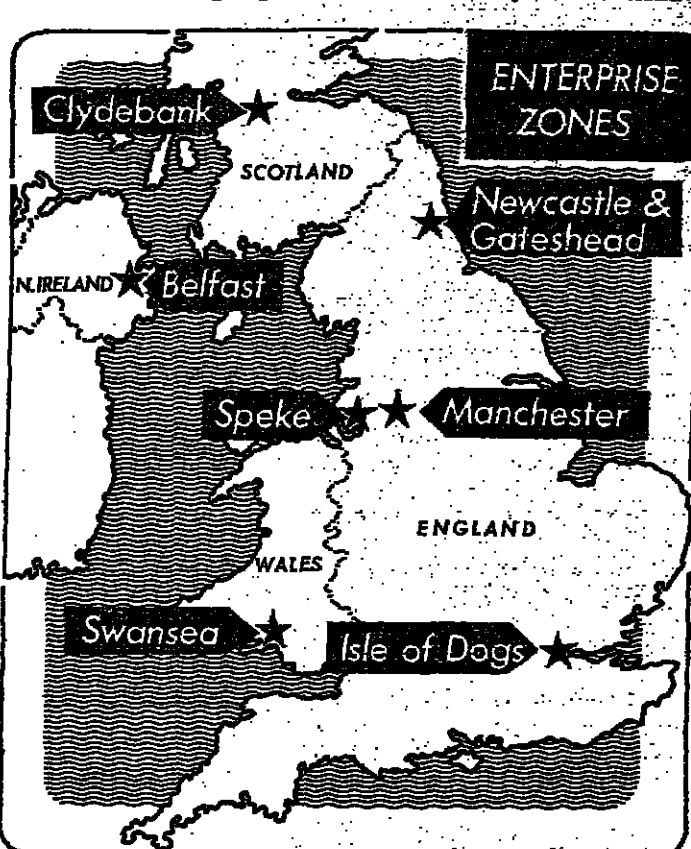
Companies within the zones will benefit from:

- exemption from Development and Tax
- exemption from all rates on industrial and commercial property
- 100 per cent capital allow-

The Labour MPs said, "But the Environment Department is determined to ensure that controls, particularly planning controls, will not be relaxed enough to allow such speedy results. All the laws regarding chemical and other pollution, for example, will be strictly enforced. And there will be a catch-all planning proviso ensuring that no proposed development constitutes 'nuisance.' The Confederation of British

Industry has given a qualified welcome to the zones. Sir Raymond Pennock, CBI president, hopes the zones will demonstrate to business the benefits of working in an environment free of many of the usual constraints. But he feels the experiment is radical enough to need careful monitoring; with surveys of progress every two years.

Many of the anxieties about the zones have been drawn together by the Town and Country Planning Association. Its main objection has been the likely impact of zones on the local economy. The incentive



The main reservation, however, is that the fiscal and other benefits offered by the plan will not in themselves be enough to bring industry and commerce to areas with poor transport systems, inadequate housing and shortages of skilled labour and a history of poor labour relations.

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As the seventh largest bank holding company in the United States, Continental had assets that totaled \$41 billion at June 30, up more than 25% from \$32.6 billion a year earlier. Continental Bank specialists in over 100 offices in 31 countries are committed to serving the financial needs of the business community.

*John H. Perkins*  
John H. Perkins  
President

	1990	1979
<b>Assets</b>		
Cash and due from depository institutions:		
Cash and non-interest bearing deposits	\$ 3,609.1	\$ 3,330.4
Interest bearing deposits	4,916.9	3,941.5
Investment securities	2,810.1	1,953.7
Trading account securities	237.0	233.0
Other short-term investments	1,067.0	521.9
Loans	24,807.9	20,293.6
Lease financing receivables	654.1	499.8
Total loans and lease receivables	25,462.0	20,793.4
Less: Unearned income	220.4	149.3
Reserve for credit losses	230.2	196.2
Net loans and lease receivables	25,011.4	20,450.9
Properties and equipment	255.0	205.7
Customers' liability on acceptances	2,065.5	1,022.2
Other assets	1,083.7	926.2
<b>Total assets</b>	<b>\$41,055.7</b>	<b>\$32,615.5</b>
<b>Liabilities</b>		
Deposits:		
Domestic—Demand	\$ 5,333.2	\$ 3,743.7
Savings	1,244.9	1,345.1
Other time	5,884.8	4,846.8
Deposits in foreign offices	13,590.2	11,245.2
Total deposits	26,053.1	21,180.8
Short-term borrowings	9,888.0	7,681.6
Acceptances outstanding	2,076.8	1,031.7
Accounts payable and other liabilities	1,060.1	868.3
Bonds, mortgages and similar debt	530.1	541.0
<b>Total liabilities</b>	<b>39,608.1</b>	<b>31,323.4</b>
<b>Stockholders' Equity</b>		
Preferred stock—without par value:		
Authorized: 10,000,000 shares, none issued		
Common stock—\$5 par value:		
Authorized: 80,000,000 shares both years		
Issued and outstanding: 1980—39,249,725 shares		
1979—39,190,385 shares	196.2	196.0
Capital surplus	510.9	508.9
Retained earnings	740.5	592.2
<b>Total stockholders' equity</b>	<b>1,447.6</b>	<b>1,292.1</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$41,055.7</b>	<b>\$32,615.5</b>

**BLAINE J. YARRINGTON**  
Executive Vice President  
Standard Oil Company (Indiana)

**MORE THAN 600** drivers and conductors at the United Counties Council company in Northamptonshire will vote this week on a management proposal that will sacrifice four hours a week guaranteed overtime to help reduce the company's losses of £1m a year. The company is also planning to make 150 staff redundant.

The management says that if its proposal is rejected, the premises will run into more serious financial difficulties, and possibly go into liquidation.

"We just haven't any more money left, and to save more

redundancies the bus crews will have to do their bit. With the County Council having cut our annual subsidies, we are in a serious position," said Mr. Peter Brindle, the traffic manager.

Last month the crews refused to sacrifice a guaranteed eight hours a week overtime, and the new proposal is a compromise.

© Mann Egerton, the motor distributors group, is closing its premises at Wichech, Cambridgeshire, with the loss of 20 jobs. The company blames the general economic recession together with reduced demand for BL cars.

## Two-day week at Meriden motorcycle co-operative

BY JOHN GRIFFITHS

A PAIR of flintlock presentation holster pistols, made around 1825, was bought by Holland and Holland for £9,500 at Sotheby's yesterday in an arms and armour sale which totalled £116,837. Another pair, made in 1781, sold for £6,000 and an Italian pair of scabbards

**SALEROOM**  
BY ANTONY THORNCROFT

**ANTONY THORNCROFT**

6390 realised £5,000. A Prussian garde du corps parade helmet of about 1900 went for £1,150 and a uniform of an officer in the West Yorkshireshire Volunteer Infantry of the early 19th century sold for £950.

Sotheby's first silver sale in Chester totalled £84,945, with 10 lots of £6,600 for an extensive Victorian-crowned Queens pattern tableware, service of 235 pieces and £3,400 for a set of 12 George II table candlesticks by Eliza Godfrey. In the London book sale a first edition Adam Smith's *The Wealth of Nations* sold for £3,100.

In other sales Phillips disposed of clocks and watches with a top price of £4,000 for a late 17th century walnut and a marquetry longcase clock by Thomas Stubbs while Christie's top Kensington had a successful costumes auction with a top price of £230 for a Chinese

**BY JOHN GRIFFITHS**

**THE 400 WORKERS** at the Meriden motorcycle co-operative have been put on a two-day week as they wait to learn if the Government will agree to waive nearly £12m of debt and allow a takeover of the co-operative by Armstrong Equipment of Hall.

Mr. Geoffrey Robinson, Labour MP for Coventry North-West, who acts as the co-operative's unpaid chief executive, said yesterday the co-op was building motorcycles to order on a week-to-week basis. "We have orders for about 50 this week,"

He blamed the strength of sterling and depreciation of the yen for the falling-away of Meriden's business.

The last hope for Meriden's survival depends on whether the Departments of Trade and Industry decide to convince the Treasury that it is worth writing-off Meriden's debts and allowing the Armstrong takeover, as being no worse than liquidating the co-operative and possibly losing just as much.

Mr. Robinson said he hoped for a Government decision by next week.

In other sales Phillips disclosed prices of clocks and watches with a top price of \$4,000 for a 17th century walnut and a mahogany longcase clock by Thomas Stubbs while Christie's Kensington had a successful costume auction with a top price of \$420 for a Chinese

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Michael Donne reports on the Aviation Authority deficit

## Landing charges to rise

THE UK Civil Aviation Authority will put up many of its charges by between 20 and 30 per cent this autumn, to meet rising costs and a possible further deficit in the current financial year.

Sir Nigel Foulkes, chairman, presenting the authority's annual report for 1979-80 yesterday, revealed a net loss of £28.5m, nearly double that of £14.9m in the previous year. The main reason for the increased deficit was a £12.6m loss on foreign exchange, compared with £2.6m in the previous year. This arose because the authority is paid in dollars for en route navigation services it provides for the European air traffic control organisation, Eurocontrol.

Sir Nigel said that on operations where the authority controlled its own charges—such as air traffic services at UK airports and over the North Atlantic, and in safety matters and economic regulation—there was a small profit of £81,000.

On other operations where the authority cannot fully re-

cover its costs, because of Government agreements (such as en route navigation services for airlines overflying the UK), or for social reasons (the Scottish Highlands and Islands aerodromes), there was a net loss of £28.5m.

Sir Nigel held out no hope of charges being reduced in the current year, which he said was even tougher than the last.

"Once again, inflation and pay awards have proved higher than we had forecast last year when fixing our 1980 'controllable' charges, and again we shall be obliged reluctantly to increase those charges this autumn."

The amounts would vary, but the authority would seek to get at least another £4.7m in revenue to cover losses that it could already see occurring.

As a result of higher charges the authority hoped it would be able to turn the prospective losses into a profit, but it nevertheless expected heavy losses on its "uncontrollable" charges—Eurocontrol services and the operation of the Scottish High-

lands and Islands aerodromes.

Sir Nigel was also critical of some changes in the Civil Aviation Act, now passing through Parliament, and especially that which threw onto the authority the burden of responsibility for aviation environmental matters.

The Bill, he said, would make the authority responsible for minimising the effects of aviation on the environment—for example in noise and the location of airports, "or any other cause" of environmental pollution.

"These are responsibilities which the authority views with misgiving. The impact of aircraft and airports upon the environment and upon the public is always controversial, there are no solutions, only palliatives and the decisions in the end to be made for political reasons."

"The CAA is a specialised organisation, trained and equipped to serve civil aviation. It is hard to see how a non-governmental body like ours can resolve the often incom-

patible claims of the aeroplane and the environmental objector.

"If these tasks are laid upon us we shall do our best to tackle them competently, but I fear that these political problems will find their way in the end back to Government desks, while we shall have laboured in vain and made few friends in the process."

Sir Nigel said the Bill had been described as giving the authority much more power, by abolishing the guidelines given to it by the Government.

"This is not so. The Authority will still be bound by the objectives in the Act. Its policies will be developed in consultation with the industry it serves. It will have to state these policies explicitly and without the shield or encumbrance of a guidance document which can soon fall behind the times."

"Airlines will still be able to appeal against its decisions to the Secretary of State. More responsibility perhaps, but scarcely more power."

## Exports of scrap rise after curbs are lifted

By James McDonald

EXPORTS OF ferrous scrap—which have been rising steadily since restrictions were lifted from the trade last September, totalled 1.401m tonnes in the first half of this year, worth about £80m, compared with 1.347m tonnes, worth about £66m, exported during the whole of 1979.

UK scrap prices have followed the world pattern and have fallen about 28 per cent this year.

Figures published by the British Scrap Federation show the distortion caused in the first quarter by the British Steel Corporation strike and the return to a more normal pattern in the second quarter. But the April-June figures "are affected by the residual effects of the strike and the general recession," says the Federation.

With BSC returning to production, bought in home scrap consumption in steelmaking in the second quarter, at 1.475m tonnes, compared with 664,500 tonnes in the first quarter which was consumed almost entirely by the private steelmaking sector.

The first quarter's figures illustrate the private sector's almost complete reliance on scrap, compared with BSC's use of large amounts of hot metal as well as scrap in the furnace charge. Total scrap consumption in the first quarter—bought in and arising in own works—was 862,600 tonnes, and crude steel production was 784,900 tonnes. In the second quarter scrap consumption was 2.5m tonnes and steel production was almost 4.190m tonnes.

There has been a steady decline in scrap stocks held at steelworks as a result of their de-stocking policy.

## Grim outlook for British Steel after year of £545m loss

BY ALAN PIKE

THE ANNUAL REPORT which yesterday announced the British Steel Corporation's £545m loss in 1979-80 appears under sober blue cover, compared with last year's more glossy, photographic presentation. But to convey a true impression of the problems confronting the industry the blue should perhaps have been edged in black.

In a few brief phrases, the section of the report reviewing the major features of the year manages to chronicle so many of the problems which beset BSC:

● More than £200m of the loss is directly attributable to the three-month-long national steel strike which, along with general low demand, left the corporation with the lowest output in its history in 1979-80. ● UK steel demand continues at a low level and is affected by import penetration in major steel-using industries.

● This led to the decision in December to reduce liquid steelmaking capacity from 21.5m to 15m tonnes, with an enormous programme of redundancies and plant closures now in progress.

The report published yesterday appears under the name of Sir Charles Williams who retired after four years as chairman of BSC at the end of last month. But, in case anyone should believe that the worst is now past for BSC, Mr. Ian MacGregor, the new chairman, made a point of issuing a statement of his own to accompany his predecessor's report.

In this Mr. MacGregor warned that the continuing bleak outlook for steel demand in Europe as a whole and particularly in Britain—demanded that operating costs be reduced to conserve cash and achieve competitive pricing. Expenditure on raw materials and energy was being reviewed and "employment costs will have to be controlled with the

utmost rigour."

This is a clear warning to the steel unions that last winter's strike has not reduced BSC's resolve to pitch future pay offers at levels which the severely-troubled industry can afford.

But there is more. Since becoming chairman a month ago Mr. MacGregor—armed with a strong mandate to bring down the corporation's cash requirement from Sir Keith Joseph.

PERFORMANCE OF IRON AND STEELMAKING DIVISIONS, 1979-80.

	Turnover (£m)	Loss after interest (£m)
Scottish	177	84
Southampton	492	43
Sheffield	459	54
Teesside	405	137
Wales	860	144
Tubes	435	34
TOTAL	2,787	508

Industry Secretary—has been energetically reviewing BSC's entire operation.

There is little doubt that when he reports to Sir Keith shortly, Mr. MacGregor will be proposing a further reduction in capacity and jobs, on top of the 52,000 redundancies in current programme involves.

Options about where the next axe might fall—like the suggestion that still further jobs in South Wales will go, in spite of the impact which steel and coal industry closures are already having on that region's economy and social structure—remain officially undecided. But Mr. MacGregor's statement makes no attempt to disguise the likelihood of further cuts being required.

He says his review of capacity will "relate it more accurately to the perceived demand for steel and the opportunities ahead of the corporation. The present review will involve an

examination of further retrenchment, stock reduction and economies in capital expenditure."

Last month, Sir Keith acknowledged that BSC will be unable to keep within its cash limit of £450m in the present financial year, and accepted that the Government might have to raise the corporation's funding by £400m or more. But this depends on Mr. MacGregor getting to grips with BSC's problems.

Yesterday's announcement of the £545m loss, after interest and taxation but before extraordinary items, compares with a £308m loss in 1978-79. In addition, extraordinary items associated with write-down of fixed assets, closures and redundancies in 1979-80 amounted to £1,246m.

BSC made no steel at all in the last quarter of 1979-80 because of the strike, ending the year with a total output of 14.1m tonnes. Steel deliveries amounted to 10.5m product tonnes, of which 2.5m tonnes were exported.

The report attributes the increased loss largely to the strike, pointing out that the rate of loss in the nine months before the dispute was comparable to that for the previous year. In this period BSC achieved benefits from a slightly higher rate of deliveries, manpower reductions, introduction of new low-cost facilities and other economies. But these were offset by increased UK cost inflation which could not be recovered in selling prices owing to weak market conditions and the strong pound.

On the settlement which ended the strike, the report says that about 50 local bonus schemes covering about 160,000 employees have been negotiated. Since the stoppage, there had been a good recovery in production areas and the re-establishment of a rapid and efficient service to markets.

## Airlines told to justify new fares

AIRLINES seeking to raise their fares, either because of fuel price increases or for other reasons, will have to justify such rises before the UK Civil Aviation Authority will approve them, writes Michael Donne.

This was made clear in London yesterday by the Authority, which has ultimate responsibility for setting the levels of all air fares to and from the UK.

Although some airlines on the North Atlantic have decided to trim cheaper (Advanced Purchase and stand-by) rates this winter, they have also asked for permission to raise some of the dearer fares, such as first class, club class and economy rates, to meet rising costs.

The position has been complicated by an agreement among more than 60 airline members of the International Air Transport Association in Geneva, to seek rises of up to 7 per cent in all fares and cargo rates world-wide from October 1, to meet rising fuel bills.

This means that even those fares which the Atlantic airlines now want to cut may have to be raised again, unless they are prepared to lose money on them.

As things stand, the main two Atlantic airlines involved, British Airways and Trans World, are asking for a 13 per cent rise in the dearer fares, while keeping the Apex and stand-by rates down.

If the IATA-agreed rises

are also taken into account, it means they will want rises of up to 20 per cent in some of the dearer Atlantic fares, which is perhaps more than the Authority will accept.

The airlines claim the rises cover two separate fuel price rises. The 13 per cent increase is intended to cover fuel price increases up to last April, which the airlines have not yet been able to recover because of Government delays.

The new 7 per cent rise covers fuel price rises incurred since April, and other rises expected by October 1.

The airlines say only bureaucratic procedures have prevented earlier fuel price rises being compensated for by

dearer fares so far. The airlines say it is not their fault if the governmental bodies involved are overtaken by a series of fuel price rises that result in several fares increases being asked for all at once.

The Civil Aviation Authority is in a difficult position. At a time when it is planning further rises in its own charges to meet soaring bills, it will find it difficult to justify denying the airlines higher fares to meet their own higher costs.

At the same time, it is charged by the Government with trying to keep fares down and it will have to find a compromise.

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## Airports to be taken to court over restrictive trade agreement

BY OUR CONSUMER AFFAIRS CORRESPONDENT

A RESTRICTIVE trade agreement covering landing charges and other fees operated by Britain's major airports, including Heathrow and Gatwick, is to be challenged at law by the Office of Fair Trading.

Mr. Gordon Borrie, director general of Fair Trading, yesterday announced that the agreement would be taken to the Restrictive Practices Court to decide whether it was in the public interest.

The court is unlikely to hear the case until the spring of next year.

The agreement was first placed on the register of restrictive practices in May 1976. It was made between members of the Aerodrome Owners Association, which includes members of the Joint Airports Committee of Local Authorities, and members of the Joint Airports Charges Committee. Together these organisations represent most airport and aerodrome owners in the UK.

The main restriction in the agreement is a recommended scale of charges and conditions.

This includes landing fees, navigation services, passenger load supplements, and aircraft housing and parking charges.

Under the restrictive practices legislation such a restrictive agreement can be operated as long as it is registered unless the court rules otherwise.

If the Restrictive Practices Court decides the agreement must be ended it could lead to increased competition between airports and possibly lower charges for airlines using their facilities.

## Employers face shortage of numerate graduates

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

EMPLOYERS are still having difficulty in recruiting arts and social-studies graduates for jobs in computing, sales and finance, the Standing Conference of Employers of Graduates reported yesterday at its annual meeting in Cambridge.

There are also shortages of recruits with degrees in numerate subjects such as electrical and mechanical engineering, physical sciences, computing and mathematics, according to the SCOEG.

But while the great majority of employers are maintaining recruitment of graduates despite the recession, at least four companies have cancelled offers of jobs made earlier in the year, said SCOEG members.

And if the recession continues, there is likely to be a sharp fall in demand next year for people leaving universities and polytechnics without numerate skills.

Higher educational institutions are being asked to make plans to help non-numerate graduates next Summer by providing short courses to improve their mathematics.

## Spode plans

Planning permission has been granted to the Royal Worcester Spode works at Stoke-on-Trent to rebuild its factory as part of a modernisation scheme which will also provide land for a new supermarket.

## Tesco coin appeal to aid RNLI

MORE THAN 500 Tesco stores throughout the UK are taking part in an appeal to encourage people to help the Royal National Lifeboat Institution by depositing their foreign coins in collecting boxes in the stores from Monday until the end of September.

Thousands will be going abroad this summer and coming home with loose foreign change. Individuals cannot exchange small amounts of currency but the RNLI is able to dispose of the coins in bulk.

Commander Ted Pritchard, RNLI appeals secretary, says it is estimated that there is more than £20m worth of foreign coins throughout the UK. It needs £12m in 1980 to pay for its service which runs 200 lifeboat stations throughout the UK and Ireland.

## Notice of Redemption

## Clark Equipment Overseas Finance Corporation

4½% Guaranteed Debentures Due 1981

NOTICE IS HEREBY GIVEN that pursuant to the provisions of the Indenture dated as of March 1, 1966, as supplemented, under which the above-described Debentures are issued, Citibank, N.A. as successor Trustee has selected \$127,000 principal amount of such Debentures for redemption on September 1, 1980 (herein sometimes referred to as the Redemption Date) through the operation of the Sinking Fund at the redemption price of 100% of the principal amount thereof, together with accrued interest to said date as follows:

\$1,000 COUPON DEBENTURES BEARING THE PRINCIPAL INTEREST											
33	926	1227	1882	2320	2971	6128	7713	8682	11071	11882	12078
54	963	1529	1803	2050	4923	7281	10081	11202	11296	11379	12980
307	1215	1524	1014	1736	4923	6130	8776	10096	11203	11608	12141
307	1215	1525	1913	2801	5111	7052	8279	10698	11417	11618	12144
310	1444	1897	2358	3803	5156	7537	9414	11012	11462	11621	12203
688	1416	1700	2259	3968	5108	7585	9610	10884	11453	11629	12535
729	1447	1705	2275	3969	5476	7589	9675	10982	11454	11640	12617
778	1451	1715	2277	3970	5477	7712	9679	10985	11564	11723	12744

The Debentures specified above are to be redeemed for the Sinking Fund (a) at the Corporate Trust Department of Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, New York 10015 or the Corporate Trust Department of European-American Bank & Trust Company, 10 Hanover Square, New York, New York 10005 or (b) subject to any laws or regulations applicable thereto, at the principal offices of Morgan Guaranty Trust Company of New York in London and Paris, at the principal offices of Amsterdam-Rotterdam Bank N.V. in Amsterdam, Societe Generale de Banque S.A. in Brussels, Deutsche Bank Aktiengesellschaft in Frankfurt, Banque Generale de Luxembourg in Luxembourg and Credit Industriel d'Alsace et de Lorraine in Luxembourg, the Company's Paying Agents. Payment at the offices referred to in (b) above will be made by a United States dollar check drawn on a bank in New York City or by a transfer to a United States dollar account maintained by the payee with a bank in New York City, on the Redemption Date such Debentures shall become due and payable at the Redemption price, and on and after such date interest on the said Debentures will cease to accrue.

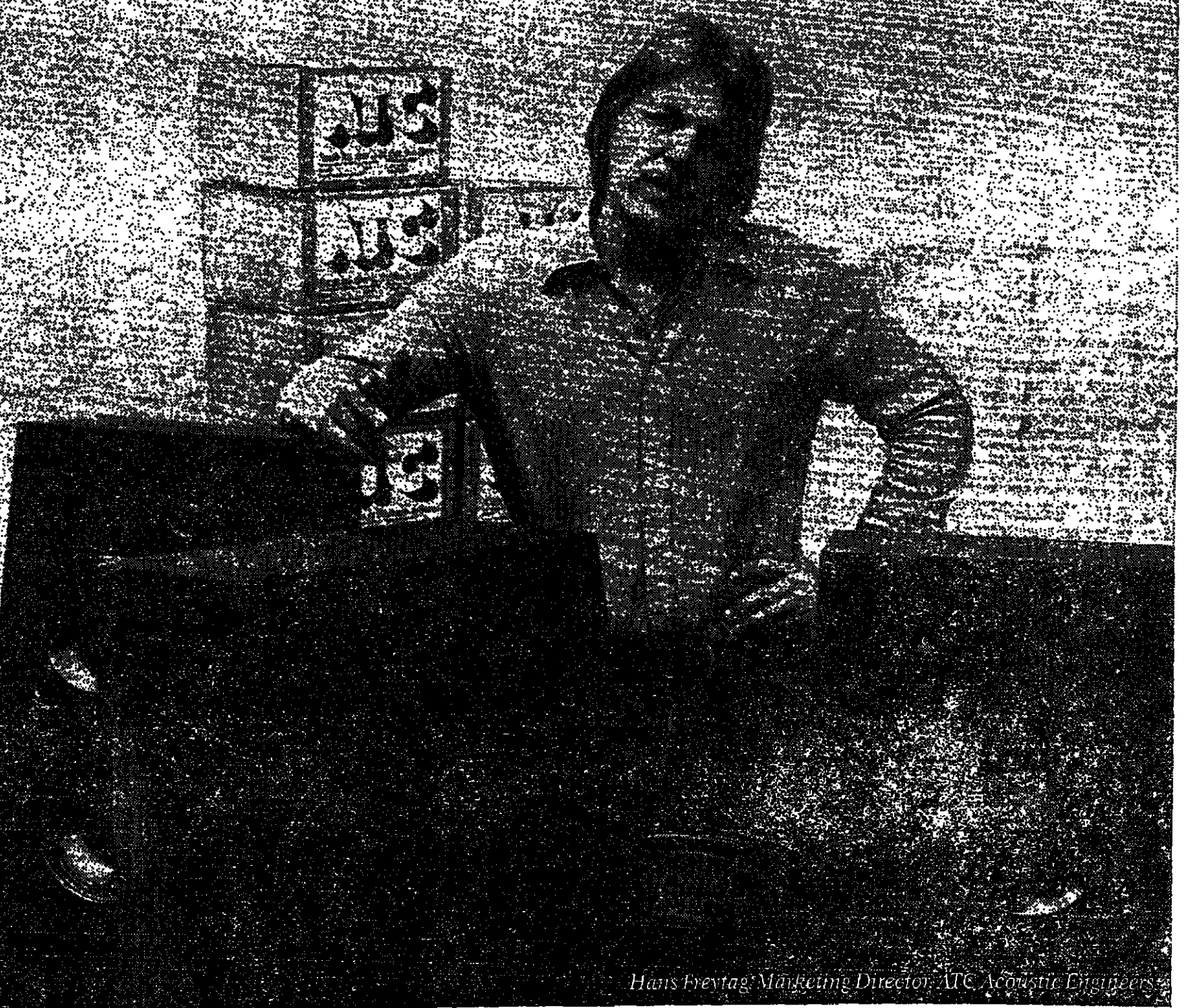
The Debentures specified above should be presented and surrendered at the offices set forth in the preceding paragraph on the said date together with all interest coupons maturing subsequent to the Redemption Date. Coupons due September 1, 1980 should be detached and presented for payment in the usual manner.

CLARK EQUIPMENT OVERSEAS FINANCE CORPORATION

July 30, 1980

You're a bright young company. Business is growing steadily. In fact you could do with larger premises but at the moment you haven't got the resources to get them. Suddenly you get notice to quit. What do you do? About 18 months ago A.T.C. Acoustic Engineers, manufacturers of high powered professional loudspeaker drive units and complete studio monitoring systems, found themselves in this unenviable position. Suitable new premises had to be found. And quickly. Efforts to get help from traditional banking sources met with sympathetic ears but firm refusal. Then A.T.C. turned to the London Industrial Centre. L.I.C. stepped in with £10,000 so that the business could continue. And the financial crisis was averted. An introduction to the man who can help you when you're against the wall.

## WHEN YOUR BACK'S AGAINST THE WALL WE'LL MOVE THE WALL



Hans Brestag, Marketing Director, A.T.C. Acoustic Engineers

LONDON INDUSTRIAL CENTRE

WE'LL HELP YOU MAKE MORE OF YOUR CAPITAL

London Industrial Centre, Island Block, The County Hall, London SE1 7PB. Tel: 01-633 2424.



## UK NEWS

## Minister defends UK fuel charges

By Ray Dafter, Energy Correspondent

CLAIMS THAT British Gas Corporation charges are penalising British industry have been rebutted by the Government.

Mr. Norman Lamont, junior energy minister with responsibility for the gas industry, told oil analysts in London that in general there was no firm evidence to suggest that average industrial gas prices in the UK were higher than in any other European country.

He was responding to complaints from industrialists—the Chemical Industries Association in particular—that high gas prices were forcing UK companies to be less competitive than their continental counterparts.

Mr. Lamont said that the average price paid in the first quarter by some 900 large industrial customers was 15.96p per therm. The average price for new and renewed contracts was 22p per therm—a long way short of the 26-33 pence a therm claimed for new and renewed contracts by the CIA.

But Mr. Lamont conceded that the present average price was distorted by one "very cheap and long-standing contract" agreed between British Gas and Imperial Chemical Industries. And he accepted that the average related to both firm and interruptible contracts, whereas the CIA has been complaining particularly about rates charged for firm supplies.

"In general, there is no firm evidence that average industrial gas prices are higher here than in any other European country," he said. Even if some British companies were for the moment paying more, their competitiveness should not be unduly impaired.

"Our best calculations suggest that in British industry gas for fuel use typically accounts for only a few per cent or less of the company's total costs," said Mr. Lamont. If that is right, even if the differential as against foreign competition were as much as 50 per cent—and I do not believe that to be the case—that would in general add well under one per cent to the selling price of the product.

ECG figures showed that Britain was not out of line. The average price paid by large industrial consumers was less than the French, Italian, Dutch and Belgian tariffs. The same figures showed that in January companies in Düsseldorf, Frankfurt and Stuttgart were paying more than they would in Britain for renegotiated contracts.

The CIA last night stuck by its claims that UK companies were paying more for gas than Continental ones, and it said that Department of Energy officials now admitted this to be the case.

## Government to review gas appliance monopoly

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE GOVERNMENT intends to give priority consideration to ways of ending the British Gas Corporation's monopoly of gas appliance retailing in the UK. Its options include selling off to private enterprise all 933 gas showrooms currently operated by British Gas.

The Government's review follows yesterday's highly critical report of British Gas's appliance retailing from the Monopolies and Mergers Commission. The report, which took more than two and a half years to prepare, is one of the most strongly worded documents ever published by the Commission.

The Commission recommends either of two options as a means of ending British Gas's retail monopoly. The main option is for the hiring off of the showrooms to private sector retailers. The Commission suggests that this could be achieved over a three-year period, during which time British Gas's retailing activities would be run down.

At the same time, the report suggests, "the resources of the retailing industry would be brought into play to develop, in co-operation with the manufacturers, a stocking and distribution system for appliances and spares alike."

The second option is for a modification of British Gas's accounting procedures to restrict the use of its monopoly powers in appliance marketing, and to lessen its ability to subsidise appliance sales from its overall profits.

A third option, rejected by the Commission, was to create a separate trading organisation along the lines of the present

showrooms to carry out appliance marketing.

Mrs. Sally Oppenheim, Minister for Consumer Affairs, yesterday welcomed the report, which she said would be "swiftly examined with a view to taking appropriate action following full consultations."

Although the Government has not yet made up its mind on the issue, it is understood to favour at the moment the more radical course of hiring off the gas showrooms. This would be in line with its current policy in other nationalised industries.

British Gas said last night that it was studying the report in depth, and expected to hold detailed talks with the Government before any decision was reached. It also pointed out that in its evidence, the Corporation had "consistently maintained that its retailing activities were in the public interest."

The Commission was clear in its conclusion that the gas appliance retailing activities of British Gas was a monopoly which operated against the public interest. "We are left in no doubt that these monopoly situations have largely contributed to the manufacturers' lack of investment, inadequate commitment to technical or market research and development, and failure to promote exports," it says.

The Commission adds: "We consider that the Corporation exercises excessive control over the conduct and performance of the gas appliance industry."

It suggests that the effect of this dominance has been to limit the number of independent outlets supplying gas appliances, and thereby to

suppress competition, to limit consumer choice, and possibly to increase the price of appliances."

The report also points out the aggressive tactics used by some of British Gas's retailing staff in the regions to limit competition. These tactics included price-cutting to drive a competitor out of the market, and undermining public confidence in the safety of private retailers.

The commission says that although British Gas has been less aggressive to independent retailers since the investigation was started, "we cannot ignore the possibility that the Corporation may be tempted to employ again some of the commercial tactics which we have criticised."

The Commission does not come to a firm recommendation about which of its two main options should be implemented by the Government, since it acknowledges that this must be a political decision. But a minority report by two of the Commission's members favours the less radical alternative of changing British Gas's accounting procedures to stimulate competition.

Support for the less radical option also came last night from the Consumers' Association, which said that consumers did not like being subjected to such experiments.

The National Gas Consumers' Council criticised the report for paying too little attention to safety, energy conservation and the long term availability of spares.

Domestic Gas Appliances, The Monopolies and Mergers Commission, HC 703, SO 21.

## Changes sought for coal stocks finance

BY MARTIN DICKSON

THE NATIONAL Coal Board and the Central Electricity Generating Board are likely to make a joint appeal to the Government this autumn for greater financial flexibility for their growing coal stocks.

Because of the recession, electricity demand is falling, which means the CEBG is burning less coal although NCB production is rising. The rise of stocks could hit finances hard, adding to the external borrowing needs of either the CEBG or the Coal Board.

The two industries are likely to ask the Government to remove money spent on stocking coal from external financing limits—the amount nationalised industries are allowed to borrow in a year. They could be joined by British Rail, which depends on the movement of coal for much of its freight business.

Sir Derek Ezra, the NCB chairman, said yesterday the Board wants special arrangements for financing coal stocks which depend on the vagaries

of temperature and demand.

He thought the external financing limits should not interfere with the sensible movement of stocks. To store coal at pits and lift it later to power stations involved wasteful double handling.

Sir Derek was speaking at a ceremony in Hambleton, North Yorkshire, which was also attended by Mr. Glyn England, the CEBG chairman, and Sir Peter Parker, the chairman of British Rail, to mark the start of work to divert the main east coast railway away from the new Selby coal field.

This diversion will be the first major contract for the construction of a new main railway line in Britain since 1896.

It is needed because at present the line runs directly above the Selby coalfield, due to come into production by 1983.

Subsidies from the coalfield under the existing railway track would have seriously slowed

## Oil spills cleansing criticised

By William Hall, Shipping Correspondent

EUROPEAN GOVERNMENTS are not well prepared to combat massive oil pollution despite lessons from major disasters like the loss of the Amoco Cadiz, says a special report commissioned by the EEC.

The report, prepared by the International Tanker Owners' Pollution Federation, says that the same "basic problems" have been "repeatedly demonstrated" in clean-up operations at all recent large oil spills in European waters, "the lessons of past spills have not been fully appreciated."

One of the key lessons is that seaboard cleaning is unlikely to be enough when a large amount of oil is discharged near the coast.

The report criticises governments for concentrating anti-pollution efforts on treatment at sea and generally neglecting protection of inshore waters, cleaning contaminated shorelines and disposing of recovered oil and debris.

## CBI QUARTERLY SURVEY OF INDUSTRIAL TRENDS

## Manufacturers report widespread pessimism about business levels

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

A SHARP decline in the volume of orders and output at home and abroad has helped to cause a widespread loss of optimism about business prospects in manufacturing industry according to the Confederation of British Industry's quarterly industrial trends survey.

The survey, published this morning, shows employment levels will continue to decline in autumn as companies increase the rate at which they lay off labour.

Price levels are proving to be an unprecedented constraint to exports. Overseas orders are expected to continue to fall in the coming months.

The survey suggests the rate of increase of selling prices, especially for exports, has slowed significantly, even though there has been only a small reduction in the rate in increase in unit costs.

Investment intentions have also declined rapidly, following a levelling off shown in the last survey which was published in April.

In general, companies are predicting sharper falls in employment and fixed investment than in previous months, and in any previous survey, and an attack on the stock levels of finished goods is also planned.

A sharp decline in activity, accompanied by further reductions in margins, is likely to exert substantial pressure on the already weak liquidity position of manufacturing industry, the CBI says.

The survey was carried out among nearly 2,000 manufacturing companies between June 27 and July 16. Most replies will have been completed after the reduction in Minimum Lending Rate from 17 to 16 per cent was announced on July 3.

Only 2 per cent of the participants said they were more optimistic than four months ago about the general business situation in their industries.

A further 26 per cent said there was no change, but 72 per cent were less optimistic. This balance of minus 70 per cent between those less and more optimistic points to a very sharp decline in business confidence, says the CBI.

It is the worst since the three-day week of 1974 which, in turn, was the worst since the survey began in 1958.

Increased pessimism is evident throughout industry although it is less marked in some areas, including shipbuilding and marine engineering and constructional steelwork. The recent trend for smaller businesses to be more optimistic than larger concerns has disappeared, and there is little difference according to sizes of business.

The balance of companies reporting a decrease rather than an increase in the volume of new orders has fallen from minus 28 per cent to minus 55 per cent.

Similarly the balance forecasting fewer orders in the next four months has fallen to minus 47 per cent, compared with minus 21 per cent in April and minus 24 per cent in January.

Only one industry—power and industrial electric goods—shows a higher intake of new orders. But only a small fall in demand is expected by the electronics goods industry, which has also reported only a small reduction in the past three months.

For the fourth survey in succession textiles and metal manufacturers continue to forecast more extensive declines in demand.

A total of 75 per cent of the participants assess the volume of their order books as below normal. This implies a considerable weakening in demand. Order books are said to be normal by 20 per cent and above normal by only 5 per cent.

Order books are weaker for the metal manufacture, broad industry group and strongest for food, drink and tobacco.

For the fourth successive quarterly survey, there has been a reduction in capacity utilisation with 76 per cent of respondents reporting that they are working below a satisfactory full rate of operation.

Below capacity working has become increasingly widespread—since last summer and the current 76 per cent figure is only slightly better than that recorded in the trough of the 1975 recession.

Activity has weakened in all industries although food, drink and tobacco companies remain

relatively busy. In metal manufacture, however, below capacity working is almost entirely predominant. In man-made fibres, 100 per cent of companies are operating below full capacity.

The volume of stocks of raw materials and brought in supplies, and the volume of work in progress are both reported to have declined over the past four months. But the balance expecting further reductions over the next four months are at record levels.

The volume of finished stocks is reported to have risen for the fifth consecutive quarterly survey, although by only small balances of participants, despite extensive efforts at destocking. At the same time there has been a steady increase in the proportion of companies regarding their stocks of finished goods as adequate or more than adequate. This assessment is now made by 34 per cent of respondents, of whom nearly half answered "more than adequate."

Shortages of orders or sales are now quoted by 91 per cent of participants as a likely factor limiting output over the next four months. This compares with 85 per cent in April, which itself was the worst figure since CBI survey began.

Shortages of skilled labour is only mentioned as a constraint by 5 per cent of the respondents which is a record low figure. Even so in two or three industries—including hosiery and knitwear and constructional steelwork—20 per cent or more companies have reported skilled labour shortages.

Investment intentions are weakening at a rapid rate with a balance of minus 43 per cent of participants expecting to authorise less rather than more capital expenditure on plant and machinery during the next 12 months. This compares with only minus 18 per cent in January and April. The balance for investment on buildings has declined to minus 47 per cent, from minus 31 per cent in April and minus 30 per cent in January.

This leads the CBI to forecast that the volume of private manufacturing investment is likely to fall by slightly more than 5 per cent between 1979 and 1980, and then to drop by a figure "nearer 10 per cent" in the following year.

The survey suggests on employment that "very wide labour shedding has been taking place and that this process will continue unabated over the next four months."

A balance of minus 50 per cent of companies reports a reduction rather than an increase in the numbers employed over the past four months compared with minus 43 per cent in April and minus 31 per cent in January.

Looking to the future, a similar trend is indicated with a balance of minus 58 per cent forecasting further reductions in the next four months.

Over the past four months average domestic selling prices have risen for 46 per cent of respondents, remained unchanged for 11 per cent, and fallen for 43 per cent. The balance of plus 35 per cent recording a rise rather than a fall is the lowest since April 1973 and is much lower than the plus 57 per cent recorded in April.

Equally the balance expecting increases in average domestic prices over the next four months is, at plus 33 per cent, considerably lower than the plus 56 per cent of April and is the lowest since January 1973.

Although these results "may represent encouraging signs for the rate of inflation," says the CBI, "the decline in price inflation has not been accompanied by as rapid a decline in unit cost inflation." This means that there are "serious implications for profit margins," because of serious export trends.

Optimism about exports has declined more seriously than in any quarter since 1961 when it was first included in the survey. Some 19 per cent of respondents have reduced export prices while 34 per cent have raised them. The consequent balance of plus 15 per cent is the lowest since October 1968.

CBI Industrial Trends Survey No. 77, July 1980. CBI, Centre Point, London, WC1. Subscription for full results £90 (CBI members £40).

TOTAL TRADE—All figures are percentages on a weighted sample. Figures in parenthesis show the response to the survey carried out last April. Number of respondents: 1,961.

Are you more or less optimistic than you were four months ago about the general business situation in your industry?

Do you expect to authorise more or less capital expenditure in the next 12 months than you authorised in the past 12 months on:

(a) Buildings

(b) Plant and Machinery

Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)?

Excluding seasonal variations, do you consider that in volume terms:

(a) Your present total order book is

(b) Your present stocks of finished goods are

Excluding seasonal variations, what has been the trend over the past four months, and what are the expected trends for the next four months, with regard to:

Numbers employed

Volume of total new orders

of which:

Domestic orders

Volume of output

Volume of domestic deliveries

Stocks of:

(a) Raw materials and brought in supplies

(b) Work in progress

(c) Finished goods

Average costs per unit of output

Average prices at which:

Domestic orders are booked

Approximately how many months' production is accounted for by your present order book or production schedule:

Less than 1

What factors are likely to limit your output over the next four months:

Orders or sales

Skilled labour

Other labour

Plant capacity

Credit or finance

Materials

In relation to expected demand over the next 12 months is your present fixed capacity:

More than adequate

What are the main reasons for any expected capital expenditure authorisations on buildings, plant or machinery over the next 12 months:

To expand capacity

To increase efficiency

For replacement

Other

What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next twelve months:

Shortage of labour

Inadequate net return on investment

Shortage of internal finance

Uncertainty about demand

Other

EXPORT TRADE—Companies completing these questions have direct exports exceeding £10,000 per annum. Number of respondents: 1,961.

Are you more or less optimistic about your export prospects for the next 12 months than you were four months ago

Excluding seasonal variations, do you consider that in volume terms:

(a) Your present total order book is

(b) Your present stocks of finished goods are

Excluding seasonal variations, what has been the trend over the past four months, and what are the expected trends for the next four months, with regard to:

Numbers employed

Volume of total new export orders

Volume of export deliveries

Average prices at which export orders are booked

What factors are likely to limit your ability to obtain export orders over the next four months:

Prices

Quota and import licence restrictions

Political or economic conditions abroad

Other

## The brightest spot in Cromer

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

CROMER has had a battering this summer. A combination of malevolent rain, biting northerlies and dear petrol have kept away the holiday-makers on which so much of its prosperity depends. Hoteliers put a bright smile on things and tell you there will be more people in next week. But without the holiday-makers and day trippers the town is going to feel a bit of a draught this winter.

As it is, Cromer and its neighbours such as Wells-next-the-Sea, Blakeney, Fakenham and Hunstanton are pockets of depression amid the riches of East Anglia. The planners desert them as "dark spots" to differentiate from the black spots around Sunderland or on Clydeside.

If you have just left school and cannot find a job it does not really matter what shade you are painted. It was not always so difficult to find a job in Cromer. In Edwardian days the town had more than its fair share of millionaires, and royalty, in the shape of Edward VII,

house keeper and the light-house is on club land. Everyone knows what a light-house does: "It waves a ship of rocks or shoals," and says. It does this by sending out a beacon signal, flashing a light or sounding a foghorn. Except that Cromer has no foghorn. No one quite knows why—there are very few light-houses without a horn, but it is probable that Cromer's was taken away about the time Edward was paying his visits. Such a noise might have kept the royal party awake at night and so Cromer was silenced.

Cromer is a land station, that is a lighthouse on the mainland, as opposed to the Eddystone, for instance, out at sea. The difference is in living and working conditions. There are three keepers on a rock station and they spend a month on duty; after that, they get a month off. If, for any reason, they cannot get off the rock then they lose part of their month's leave. It's considered to be part of the job, the rub of the green so to speak.

But that doesn't happen much nowadays. "When I joined Trinity House, 24 years ago," Ted says, "you could find yourself marooned on a rock in bad weather, heavy seas or fog. A crew on the Skerries off Holyhead once spent a whole month extra on the rock. It meant they had an uninterrupted spell of 12 weeks there, which can be a bit trying."

The secret of life on a rock station is patience, according to Ted. "There's three of you and you have to live in a room 15 feet square. You have another room with three bunks, but that's it. You can quite easily get on each other's nerves."

"I have a golden rule. Keep off politics, religion and trade union affairs. I've seen some terrible quarrels and they can



Relief stores for lightships are loaded into a Trinity House helicopter

really sour things. Bad table manners and snoring can also send a bloke off the deep end.

"The other thing is to have a hobby that's quiet. I make model aircraft. That's fine. Carpentry wouldn't be any good at all. If you started banging with a hammer and one man was asleep and the chap on duty had a headache it's a recipe for disaster."

Being marooned on a rock station does not happen very often now because the light-houses are almost entirely serviced by helicopters. Every lighthouse has its own helicopter pad and only occasionally does thick fog prevent the relief getting through.

The coming of the helicopter is not the only change Ted Whaley has seen in the past 24 years. The oil lamps have been replaced by electricity, the explosive fog signals have gone, diesel-driven generators have appeared and there are air compressors.

If the work has changed the pattern of signals has not. Lighthouses do not simply flash on and off. They flash a

set sequence and no two have the same pattern. Cromer sends out five flashes every 7½ seconds. A vessel's skipper or navigating officer would know where he was immediately by interpreting the pattern of flashes.

The lighthouse also sends out the letters CM (for Cromer) in Morse every six minutes of the day by radio and the light-house keeper has to keep a continual log. This part of the Norfolk coast is a quiet one for shipping, mostly used by coastal vessels plying Hunstanton, King's Lynn or Yarmouth and Lowestoft. But the keeper on one of the Goodwin lightvessels in the Dover strait is bang in the middle of a maritime M.I.

Ted Whaley likes Cromer and would like to stay there. East Anglia is a lovely part of the world, even in this miserable summer. There are much worse places to be, and much worse jobs to be in.

Tomorrow:  
Back to normal in Derby

## Traders given details of 'truth in lending'

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

TRADERS faced with implementing the Government's "truth in lending" regulations this autumn have been given comprehensive details of the law by the Office of Fair Trading.

In a booklet aimed at traders, the OFT spells out how the regulations made under the Consumer Credit Act will apply to most credit and hire advertisements, whatever the medium used by the advertiser.

Although the act became law in 1974, the regulations governing "truth in lending" will not come into force until October 6

this year. From that date most companies and traders offering credit or hire facilities must conform to the new regulations or risk committing an offence.

The regulations' aim is to ensure that advertisements give a fair and accurate idea of the type and cost of credit being offered. This will enable the consumer to compare the terms available from different companies.

The guide is available free from the OFT, Government Buildings, Bromyard Avenue, Acton, London W3 7BB.

## EUROBONDS

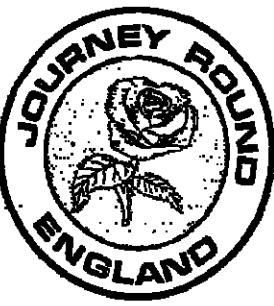
The Association of International Bond Dealers Quotations and Yields appears monthly in the Financial Times.

It will be published on the following dates in the remainder of 1980:

August 12 September 15 October 14  
November 11 December 16

There is a limited amount of advertising space available each month: if your company is interested in taking advantage of this offer please contact:

The Financial Advertising Department  
on 01-248 8000 Ext. 424 or 339





# ACCORDING TO THE LETTER OF THE LAW, ONLY ONE CAR IS AS RELIABLE AS A ROVER.



The Chief Constable  
of West Yorkshire

To: Sir Michael Edwardes,  
Chairman, BL Cars Ltd.,  
London W1H 0HQ.

P.O. BOX 9,  
WAKEFIELD,  
WEST YORKSHIRE, WF1 3QP

15th July, 1980.

Dear Sir Michael,

You may be interested to know that the Rover cars used in our traffic fleet for a number of years have always given exceptional performance and satisfaction.

The West Yorkshire Metropolitan Police is one of the largest provincial forces: we operate our cars for nearly 24 hours a day on the M1, A1 and the Trans-Pennine Motorway, the M62. In weather conditions that can be extremely severe, the Rover will survive when many other cars have been abandoned.

It is our normal practice to change the cars every 2 years, when the mileage is between 80,000 and 100,000, but recently we have found exceptional performance in some of the cars, which has persuaded us to hold on to them for a longer period.

Our 5 cars have covered a total mileage in excess of 500,000 miles, in conditions which demand an instant response and often at high speeds. There can be up to 20 different drivers using the same car in a month and, although trained to a high level, they really work these cars very hard during their tour of duty.

In short, we are very satisfied, and our fleet order for 1980/81 includes 10 Rover saloons, 2 Range Rovers and 3 Land Rovers. Although claims can be made about the quality of German and other models, I doubt if any can compare with the experience we have had.

Every good wish for your success in the future.

Yours

*Sincerely,  
Ronald Gregory*

RONALD GREGORY, CHIEF CONSTABLE.

**SUA 415R**

102,000 MILES

**SUA 416R**

100,260 MILES

**SUA 417R**

107,506 MILES

**SUA 418R**

127,000 MILES

**SUA 419R**

83,000 MILES

## Half a million miles of police evidence.



**Rover**  
2300/2600/3500/V8S



## UK NEWS — PARLIAMENT and POLITICS

## No confidence debate separates the 'wets' from the 'dries'

BY JOHN HUNT, PARLIAMENTARY CORRESPONDENT

WELL OVER HALF the MPs in a packed House of Commons left the Chamber yesterday as soon as the big opening speeches of Mr. Callaghan and Mrs. Thatcher were out of the way.

Cheering Tories waving order papers had applauded the Prime Minister's gutsy declaration that as far as she was concerned, there would be no U-turns.

To be more exact, just over half of the Conservative backbenchers rose to give her a standing ovation.

In a fascinating exercise separating the "wets" from the "dries," the rest of them remained in their seats making polite noises.

A few feet from Mrs. Thatcher sat Mr. Ted Heath, the former Conservative Prime Minister, staring stonily into the distance.

Those who did remain in the Chamber were soon rewarded. Within half an hour the debate had sprung into life again with noisy scenes and interruptions.

Standing with icy calm in the eye of the storm was Mr. Enoch Powell (Ulster Unionist South Down) former Tory Cabinet Minister and a leading monetarist. It was his relentless analysis of Mr. Callaghan's speech which had Labour MPs hopping with fury.

Opening the debate, Mr. Callaghan had called for a reduction in interest rates even though this would lead to "some lies" in the money supply. An expansion of public expenditure was perfectly consistent with a responsible monetary policy and lower interest rates, the Opposition leader insisted.

At this stage, Mr. John Biffen, Chief Secretary to the Treasury and one of the main architects of the Government's policy, could be seen on the Government benches rocking contemptuously with suppressed laughter. "A good man fallen among wets," was how Mr. Callaghan described Mr. Biffen.

Musing on Mr. Callaghan's speech, Mr. Powell declared that the Opposition leader new as well as anyone else the consequences of reducing interest rates and increasing public expenditure.

"All you will have done if you do what the Opposition is asking for is to have increased unemployment, increased misery and increased disruption in the future," he declared.

Throughout Mr. Powell's speech, Mr. Norman Atkinson (Lab., Tottenham) a Tribune group veteran, spluttered with indignation and demanded to know how Mr. Powell squared this philosophy with the high level of

Government expenditure in Northern Ireland.

"Utter drivel... absolute nonsense... economic illiteracy," were some of the choice phrases which he threw at Mr. Powell, who sits near him on the Opposition side of the House.

But Mr. Powell's speech drew nods of approval from Sir Geoffrey Howe, the Chancellor of the Exchequer, and other Tories. They seemed to think that Maggie could not have said it better herself.

Interestingly enough, Mr. Powell's remarks also drew out some of the Tories who are critical of the Government's firm line.

Mr. Geoffrey Rippon (Hexham) a Minister in the Heath Government, intervened to point out that increased interest rates over the past year had put £900m on the public sector borrowing requirement—money which could have been put to a better purpose.

At least one member of the House still had doubts about the firmness of the Government's intentions. Mr. David Steel, the Liberal Leader, suggested that although Mrs. Thatcher's announcements on INMOS and the enterprise zones was not a U-turn, at least it might be a "wriggle" leading to a change of direction.

In a report on the implications for housing policy of the Government's expenditure plans up until 1983-84, the environment committee said it was now unlikely that public sector housing starts in England would even begin to meet the need for new housing.

In 1979-80 starts were 66,400. Public sector housing subsidies could be reduced by two-thirds or more.

The committee also suggested that public sector completions could fall as low as 32,000 in 1983-84 against just over 89,000 in 1979-80, forecast that there could be a cumulative shortfall of nearly 500,000 public and private sector homes in Great Britain by the middle of the current decade.

It referred to the 1977 Green Paper on housing trends, which Mr. Heseltine had said he still broadly accepted, and pointed out that by the end of 1980 the number of new council homes would be nearly 100,000 down on the level projected in the document as being necessary.

The committee report concluded that a combined total of between 150,000 and 210,000 homes a year were likely to be built up until 1984 against the 290,000-310,000 envisaged in the Green Paper.

The committee said it had invited Mr. Heseltine to give more information on the effects of the 48 per cent reduction in the housing budget over the next four financial years.

It pointed out that housing cuts of £2.58bn were planned

for the period under review. By 1984 the share of total expenditure accounted for by housing would have fallen to just over 1 per cent compared to over 16 per cent ten years before.

But the committee had to report that Mr. Heseltine had confined any elaboration on the overall expenditure figures to suggestions that they were could afford for housing. The basis for what the country only other assumption he had suggested was that an increase in real levels of prices could be expected.

It rejected Mr. Heseltine's claims that the reduction of public expenditure on housing always proved wrong and were open to misinterpretation. It suggested that these reasons did not justify his refusal to indicate the likely consequences of his decisions.

The committee went on to criticise the Minister for making suggestions which gave evidence that a reduction in public expenditure on housing would be offset by higher private sector activity but for failing to provide a view on the extent of that contribution. It did not accept his "sweeping dismissal" of the insufficiency of private sector housing forecasts.

In its report, the committee said it regretted having to divert its limited staff resources to provide indications of how housing activity might be affected by the spending plans—particularly in view of assurances given by the Leader of the House that Ministers would make every effort to ensure that the fullest possible information is made available to select committees.

The committee urged Mr. Heseltine to prepare and publish urgently an updated review of projected housing demand and need in relation to supply. It recommended that the "drastic reductions" in housing expenditure should be reconsidered in subsequent years in the light of experience.

Liberalism's Housing Bill move succeeds

BY ELMOR GOODMAN, LOBBY STAFF

THE GOVERNMENT yesterday accepted the principle of a Liberal amendment to the Housing Bill on Option Mortgages for the elderly.

The amendment was successfully moved by Lord Banks last week in a series of Government defeats on the Bill in the Lords.

But Ministers took set to try and renege another clause to the Bill giving the elderly the right to buy their council homes which they also lost in the Lords.

Mr. John Stanley, the Minister for Housing, said yesterday that he had agreed to help elderly non-tax paying home owners by extending the option mortgage scheme.

An amendment will now be introduced to the Bill extending the scheme so as to provide additional income to old people on low incomes. The cost of this change will apparently be met within existing public expenditure allocations.

The amendment is similar to that moved by Lord Banks last week and supported by Peers on all sides of the House. It thus represents a

rare victory at Westminster for the Liberals.

But, though the Government was soundly defeated in the Lords on another clause in the Bill dealing with accommodation specifically built for the elderly, it seems unlikely to go far to meet the Opposition on this amendment.

As it now stands, it would mean that local authorities would not be obliged to sell elderly tenants accommodation normally let to old age pensioners.

This provision has some support among Conservative voters but Ministers seem to regard it as an unacceptable erosion of the automatic right—fundamental to the Bill—for council tenants to buy their homes.

No decision has yet been taken but yesterday, a similar amendment in the Lords on the Scottish Housing Bill was defeated.

This seems likely to have strengthened the Government's determination to renege the clause in the Housing Bill when it returns to the Commons.

Accused

"I don't recall people voting Conservative in order to bring unemployment to up to 2m or to double the rate of inflation," he said.

Mr. Steel accused the Government of not giving the country an intelligent lead and complained that it was allowing British industry to sink or swim, without any of the help which other European Governments were giving to their industries.

He maintained: "It is the job of the Government to mitigate the effects of the world recession on the country."

Mr. Steel saw deeper implications in the decisions announced on INMOS and the creation of enterprise zones than the Prime Minister was prepared to admit.

"If these decisions don't represent a U-turn, let us hope they represent a wiggle and perhaps the beginning of a turn in the direction of the Government," he said.

The Liberal leader again urged the Government to adopt a comprehensive prices and incomes policy. He warned that the plan to impose a selective pay policy on the public sector would not work.

Callaghan: Problems must not be solved on the backs of the unemployed

Mr. Callaghan said North Sea Oil revenues should be used more directly to help industry.

There was a need to get efficient companies and industries over the worst of the recession—and those measures should include direct job subsidies.

The Government must not attempt to solve the nation's problems on the backs of 21m unemployed. Any improvement it buys it will get at too high a price," he warned.

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## 'Stay open' call by journalists to Observer owners

BY PAULINE CLARK, LABOUR STAFF

JOURNALISTS on the Observer sent a direct appeal last night to the American owner Atlantic Richfield, not to carry out its threatened closure of the paper over a printworkers' pay dispute.

The National Union of Journalists' chapel meeting was called after TUC attempts earlier in the day to help find a solution to the machine managers' dispute.

In a telex message to Atlantic Richfield, the journalists said that they believed the owners "can and must" continue to publish the paper, and called on all parties to take no action which would lead to its closure.

They believed that "the best way forward" was for Atlantic Richfield to continue as owner of the Observer.

The journalists are among 1,000 staff on the newspaper who have been warned by management that dismissal notices may be sent to all employees this week if no progress is made in talks with the National Graphical Association.

Mr. Joe Wade, general secretary of the NGA, and representatives of the Observer manage-

ment, agreed to meet Mr. Len Murray, TUC general secretary, during the morning to inform him of the latest developments.

The talks, at the invitation of the TUC, appeared to yield little hope of an early resolution of the trouble threatening Britain's oldest Sunday newspaper.

Mr. Murray said after the meeting: "It would not be helpful for me to speculate about whether a closure can be avoided, but I shall be considering what, if anything, the TUC might do to help in this very difficult situation."

Machine managers, who, as is common in Fleet Street, work as "casuals" on the Observer, Saturday-night-to-Sunday-morning production run rejected a proposed peace formula last weekend in spite of a national NGA recommendation to accept.

The management has continued to stand firm against increasing its £100.13 offer for the shift in the face of a £108.03 claim by the machine managers.

● The NUJ chapel of The Times said last night that this year's pay negotiations would go to arbitration after rejection of an 18 per cent pay offer.

## AUEW section has new Isle of Grain proposals

BY NICK GARNETT, LABOUR STAFF

THE ENGINEERING SECTION of the Amalgamated Union of Engineering Workers said yesterday that it would produce what in effect would be its own proposals for solving the difficult inter-union dispute over the Isle of Grain power station site in Kent.

This would be in response to the formula the TUC has formally advised unions to accept, or face the prospect of disciplinary procedures which could lead to their suspension from the TUC.

The AUEW Engineering Section, whose executive met yesterday, seeks discussions on this with other members of the National Engineering Construction Committee.

The committee does not include the General and Municipal Workers' Union, traditional organisers of lagers, over whose open-ended bonus payments the dispute arose.

The Engineering Section is sending a circular to its branches explaining the dispute and its own position.

The attempt by the TUC to bring the inter-union dispute under control was badly damaged on Monday when the executive of the AUEW Construction Section decided that the TUC proposals were unacceptable.

The executive said that two particular elements of the proposals, continued use of companies within the Thermal Insulation Contractors' Association and the move of newly-trained non-GMWU lagers to other jobs on the power station site, could not be accepted.

## Youth unemployment could exceed 450,000 by end of 1981, Government body warns

Aiding young jobless could cost £100m... Philip Bassett reports

THE GOVERNMENT'S employment agency, the Manpower Services Commission, warned yesterday that youth unemployment could rise to more than 450,000 in 18 months' time and that the numbers of the long-term unemployed could have risen to more than 500,000 by that time.

The Commission's projections imply a total adult unemployment level well in excess of the 2m already predicted by the MSC for the same time.

As a result of its projections, the Commission is almost certain to apply in the autumn to the Government for further funding for its Youth Opportunities (YOP) and Special Temporary Employment Programmes (STEP).

The size of the application will not be determined until the Commission's meeting in September but some indications of the likely increase needed were given yesterday by Commission officials.

Between £20m and £34m could be needed to cater for the 30,000-50,000 likely to be using YOP, based on an increase in the inflation rate of 16 per cent. STEP might need to be increased three- or four-fold if

it was to have anything more than a token effect on projected long-term unemployment levels. This could mean an application of between £80m and £80m, taking the overall package being applied for to something like £100m.

Commission officials are hopeful that the Government will respond sympathetically to any such request for extra funding for YOP. The Government, though, is likely to be much less responsive to appeals for STEP, given the major cuts ordered by Ministers in the programme this year.

The Commission's projections for youth and long-term unemployment levels were disclosed yesterday by Mr. Geoffrey Holland, director of the MSC's special programmes division, when he introduced the Commission's second annual review of YOP and STEP.

Mr. Holland said that in comparison to a figure for January this year of 107,000 young people who were jobless for six weeks or more the figure in January next year was likely to be more than 350,000. Even with off-setting job release and other schemes, the number likely to

be needing help by then will probably have risen by more than 100,000.

The comparable figure for January, 1982, could be as high as 450,000 or more.

Mr. Holland said the magnitude of the problem facing both the country and the MSC was clear and the prospect daunting. Merely to meet the MSC's undertaking to offer work experience to all school-leavers would require a much larger programme. Since young people would also be expected to say in YOP longer given the high overall unemployment levels, the programme would also have to be extended to train for white-collar and skilled work instead of blue collar manual work.

On the long-term unemployment levels, Mr. Holland said the April figure of 334,000 youths without work for more than a year—more recent figures will take time to become clear because the rate lagging behind the overall unemployment level—could rise to more than 400,000 in 1981 and more than 500,000 the following year.

At present the STEP programme, designed specifically to deal with the long-term unem-

ployed, can fund a maximum of 12,000 places, though because of employer wariness following the cuts in the scheme only 10,000 places are at the moment taken up.

Mr. Holland called for the Government to give a clear long-term commitment to the programme, with an assurance of continuity of funding. The plight of the long-term unemployed should be taken more seriously. They were not work-shy, but often the victims of structural changes in employment.

The Commission's review of the two schemes showed that last year the gross cost of STEP was £50.2m, which was £7.8m over its budget, while YOP cost £115.6m, some £28.9m under budget.

The report outlines the Commission's worries, though, that YOP placements in jobs after the work experience scheme has ended may fall seriously from its present 68 per cent level as unemployment rises. The MSC believes that young people will increasingly turn away from the programme if its placement level falls markedly.

(Review of the Second Year of Special Programmes: Special Programmes Division, MSC.)

## Corby men and Plaid Cymru in BSC protests

By Our Labour Staff

TWENTY-SEVEN pipe fitters and maintenance workers from Corby demonstrated outside British Steel Corporation headquarters in London yesterday to protest against not receiving the severance pay being given to 5,500 Corby steel workers.

The men will only receive statutory redundancy payments and not share in the £31m that has been allocated for the closure of the main Corby steel works.

Several of the demonstrators worked originally for Stewarts and Lloyds which became part of BSC after nationalisation in 1967.

Eleven members of Plaid Cymru, the Welsh Nationalist Party, rushed into the BSC headquarters yesterday to try to force an interview with Mr. Ian MacGregor, the BSC chairman.

The group was unable to find Mr. MacGregor's office and went on to the roof of the building where they stayed for more than an hour.

## BP Chemicals in health dispute

BY SUE CAMERON, CHEMICALS CORRESPONDENT

TRADES UNION officials yesterday accused BP Chemicals of suppressing information about the impact of vinyl chloride monomer, a chemical used to make plastic, on its employees' health. BP Chemicals said, however, that it had sought to stop publication for legal reasons.

National officials of the Association of Scientific, Technical and Managerial Staff said the company had asked the University of Wales to "embargo" a thesis on vinyl chloride monomer written by one of BP's medical advisers.

They said the university had kept the thesis secret for two years after it was submitted.

The officials, speaking at a Press conference launching an ASTMS report on VCM health risks, said the thesis information could have helped sick employees to fight legal actions for compensation against BP Chemicals, if it had been available earlier. The University of Wales published the thesis last January.

BP Chemicals said "much of it was based on previously published material. Parts of it, however, detailed medical histories of individual workers at BP Chemicals' VCM plant at Barry, South Wales."

Some of them had actions pending against the company on the grounds that their illness had been caused by exposure to VCM. BP Chemicals had therefore asked for the thesis to be kept secret because it might be sub judice.

But BP Chemicals said there were still eight compensation cases from Barry outstanding, even though the thesis had been published in January after a two-year gap. It said "in theory" parts of the thesis could still be sub judice. It had not asked for the embargo on the thesis to be lifted. The university acted on its own initiative.

BP Chemicals said yesterday it had just introduced a compensation scheme for employees whose health suffered because of exposure to VCM.

The ASTMS report says research shows exposure to VCM can cause a wide variety of illnesses, including liver diseases and cancer.

It calls for the present exposure limit to be cut from three parts of VCM per million parts of air to one part per million. The report says a limit of 1ppm was introduced in the U.S.

It demands early retirement, with full pension and pay, for workers exposed to VCM before 1974, when the chemical was first recognised as a serious health risk. Before 1974 the exposure limit for VCM had been 500ppm.

Last night the Chemical Industries Association said the 1ppm exposure limit in the U.S. was a "target," not a legally-enforceable standard. Conditions in VCM plants in the UK were as good as those in the U.S. in some cases British plants operated at a 1ppm level.

VCM is used to make PVC, polyvinyl chloride. Principal UK producers are BP Chemicals and ICI.

## Sir Jasper Hollom joins BATS board

Sir Jasper Hollom, former Deputy Governor of the Bank of England, has been appointed an external director of BAT INDUSTRIES from August 1. He is chairman of the Panel on Take-overs and Mergers and of Commonwealth Development Finance Company. He also remains on the Court of the Bank of England as a non-executive director.

Mr. Ian R. Farnsworth has been appointed senior vice-president (marketing) at NATIONAL WESTMINSTER BANK's executive office North America, New York. He succeeds Mr. St John Seymour who is returning to the UK on completion of his tour of duty.

Mr. Ian Butler has been appointed a director of BARCLAYS BANK UK LIMITED from September 1. He is chairman and managing director of Lead Industries Group.

THE UNIVERSITY OF GLASGOW has appointed Sir Samuel Curran visiting professor in energy studies for five years from October 1. He is at present principal and vice-chancellor of the University of Strathclyde.

CROWN LIFE has appointed Mr. Stuart Nesbitt as director of individual sales and marketing.

Mr. A. G. Smith has been appointed a managing director of ASTLEY AND PEARCE (STERLING).

Mr. Peter M. N. Jennings, an executive director of Guinness Mahon and Co., has been elected a director of the MILFORD DOCKS COMPANY.

Mr. Eric J. Paisley has been appointed president of WESTLAND TECHNOLOGIES INC., based in Winston Salem, North Carolina, U.S. This is a new company set up to promote Westland Aircraft products in the U.S.

Mr. Frank J. Manheim has been appointed chairman of AMEX BANK, the wholly-owned merchant bank subsidiary of American Express International Banking Corporation. Mr. Manheim is currently vice-chairman, and succeeds Mr. Sixto K. Roxas, who remains a director of the parent company.

Dr. H. von Werder is on October 1 to succeed Dr. A. W. Roth as management chairman of the Swiss electrical engineering concern SPRECHER AND SCHUH AG, Aarau. Dr. Roth will

remain the company's managing director.

Mr. William J. Young, formerly first vice president, financial compliance and market regulation, has been appointed senior vice president of the CHICAGO BOARD OPTIONS EXCHANGE. Mr. Young directs CBOE's regulatory efforts with respect to market regulation and financial, operational and sales practices compliance. Mr. Arne Rodde becomes first vice president of the exchange. He heads the legal department and serves as secretary of the exchange.

Mr. P. G. Hulme and Mr. A. P. Newman have been appointed joint managing directors of UNIRAX.

From August 1, Mr. Peter Mayne has been appointed commercial manager of the MANCHESTER SHIP CANAL COMPANY, following the retirement of Mr. Norman Cowgill.

Mr. Nicholas Kane has been appointed director of marketing services for RANK XEROX (UK). He succeeds Mr. Lyndon Haddon who has been appointed director of business planning and strategy for Rank Xerox.

Dr. Brian Jackson, previously financial controller, joins the Board of JOHN WYETH AND BROTHER with executive responsibility as financial director. Dr. Jamie McCaul joins the Wyeth Board as director of human resources.

Mr. Robin Hirschman has been appointed group managing director of MANSON FINANCE TRUST. Mr. Edward Goldie, previously managing director, continues as executive chairman.

The Countess of Airlie, Miss Elizabeth Ursula Chatterton, and Mr. Anthony Wakefield Cox, have been re-appointed members of the ROYAL FINE ART COMMISSION.

Sir Henry Chilver has been appointed chairman of the electronics economic development committee of the NATIONAL ECONOMIC DEVELOPMENT COUNCIL. He is vice-chancellor of Cranfield Institute of Technology.

Mr. Brian R. Law has been appointed an executive director of S. AND W. BERRISFORD from August 1. He was previously managing director of Mars with full responsibility for the operations of the confectionery division.

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# Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

## ELECTRONICS

### No need for the human touch

FIRST fully-automated production line in the world for the manufacture of hybrid circuits is the claim made by DEK Printing Machines of London and Weymouth for a plant which will go into service in September, this year.

DEK has been led to carry out this unique development because of its extensive and growing activities in the export market. It exports 75 per cent of the circuits it manufactures to Japan, east and west Europe and the United States.

Hybrids are used widely in essential controls for machine-tools, motor vehicles, precision instruments, telecommunications equipment and computing installations.

Basis of their production is a highly developed form of screen printing which deposits the conductor strips of the circuits on thin ceramic plates.

Metals such as palladium, platinum or gold form the strips and electrical resistors are formed in the same way, being automatically adjusted by laser trimmers.

### Sets tank temperature

THE CONTENTS of a storage tank can be controlled to within plus or minus 5 deg. F in the range 30 to 275 deg. F using the RTC D-300 controller from Circuit Plating Equipment, Buckhurst Hill, Ascot, Berkshire (0990 25049).

This solid state unit uses a thermocouple sensor and has a relay output which can control several immersion heaters at distances up to 50 feet.

## HAND TOOLS

### Safe compressed air gun

PUT ON the market by Air Industrial Developments, Sharnstone, Litchfield, Staffordshire WS14 0DR (0543 480341) is the Puffin compressed air blow gun, a pistol type unit said to be easy to handle and control.

Design of the nozzle is such that a barrier of air is produced during operation which prevents dangerous material

A further screen printing process deposits solder paste at the points on the circuits where components such as transistors have to be attached and the components are placed into position automatically. Final printing stage is encapsulation in resin to seal the circuits off from damp and contaminants.

From start to finish, the circuits are untouched by hand and the feed systems for each stage of production use standard 95 mm photographic slide magazines for loading and unloading.

DEK has been in the hybrid manufacturing business for 12 years and now employs some 100 people. The company proposes to allow other British manufacturers to visit the production line once it is up and running in the hope that they will invest in similar manufacturing facilities and reduce the country's dependence on imports, while competing better with foreign makers on the latter's own markets.

DEK Printing Machines, 1 Euston Centre, London NW1 3JG. 01-387 0215.

## PROCESSING

### Low cost clean-up

WHERE A very thorough cleaning of items such as electronic components, printed boards, optical devices and instruments has to be carried out, ultrasonic tanks with a starting price of £152 offered by Perm-Fix might provide the answer.

The Compact BLC range offers six sizes from 140 x 140 x 120 mm deep up to 450 x 450 x 280 mm deep and the fabrication is from 1 mm stainless steel polished on the inside to resist cavitation corrosion.

Transistorised generators with outputs from 50 to 900 watts are used with frequency sweeping to ensure uniform cavitation in the cleaning fluid, giving better results with complex shaped items.

The tank thermostat is manually adjustable from 30 to 90 deg. C and the transducers, which are of the sandwich type with two PZT discs each, are fixed to the bottom of the tank. A variety of options are available including a hard chrome layer on the tank to reduce wear due to cavitation and double the life.

More from the company at 41 Widworthy Drive, Broadstone, Dorset BH18 9BD (0202 696123).

### Treatment of water

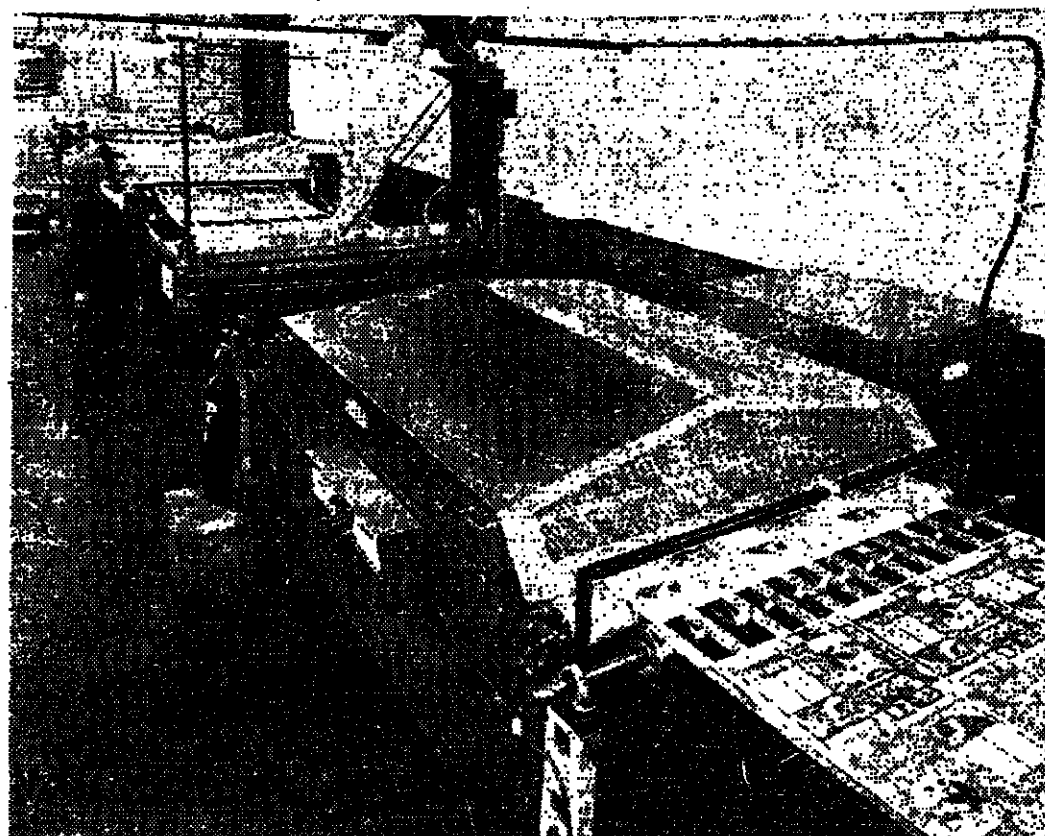
MAGNAFLOC LT31 is a liquid grade coagulant of the polyamine type. Approval for its use in the treatment of potable water has recently been granted by the Department of the Environment in Britain.

The principal area of application is expected to be as a partial or complete replacement for traditional inorganic coagulants such as aluminium sulphate or ferric sulphate in settlement and direct filtration processes.

A major benefit is the reduction in the volume of aluminium or ferric hydroxide sludge which is normally associated with water treatment clarification processes. These "hydroxide" sludges are voluminous and can involve a considerable cost in respect of their subsequent dewatering and disposal. By reducing the volume produced a substantial cost benefit can be achieved.

Supplied as a 50 per cent active liquid polymer, it is easily handled and applied. Allied Colloids PO Box 38, Low Moor, Bradford, W. Yorks. BD12 0JZ. (Tel: (0274) 671267).

## PRINTING



A radio frequency drying unit manufactured by Wiles Engineering of Edenbridge, Kent, has been mounted on this Bush roller coater at Bowater Cartons' Gillingham, Kent, works. The coater is used for lacquering or varnishing cartons and was previously used for the application of solvent varnish, which was dried by heat, two-part catalytic varnishes being used for high gloss finishes. It is stated that the latest combination of ultraviolet

curing and radio frequency drying has enabled Bowater to increase production by about 100 per cent and at the same time avoid release of solvents to the atmosphere. Ultraviolet curing is used on cartons needing a very high gloss or deep matt finish, while radio frequency drying is applied to water-based lacquers or varnishes to provide medium gloss finishes.

### Fast drying carton inks

FIVE COLOURS and a varnish, printed on carton board will be tack-free in 20 minutes and completely dry in an hour. This claim is being made by Redcliffe Inks of Yate, Bristol, for its latest ink system called Lightning.

The company says the inks used are based on a conventional high-performance formulation, but with additions to produce very rapid drying under infra-red light. The inks are as stable on the press as conventional slow-drying inks and rub

resistance is good enough for the most arduous packaging applications, it is added.

Redcliffe says its Lightning inks are intended for use as a complete ink/varnish system and give best results—including greatest rub resistance and requirement for the least spray powder—when so used.

However, the infra-red overprint varnish can be used wet-on-wet over conventional inks, or other infra-red inks, when it gives a set off surface long before the inks underneath.

## DATA PROCESSING

### Produces cards fast

OPERATING FROM a magnetic tape or direct from a computer the Series 4500 machine from Data Card International will emboss, encode and top plastics credit cards, print the transmittal forms, insert one or two cards, burst and fold the transmittal and insert it into the window mailing envelope. Speed is 500 cards per hour.

This machine will produce either CR-50 or CR-80 size cards and employs 11 x 8½ in

transmittal forms (three part fan-fold). Up to 15 lines can be selected and printed from the 47 available line locations, at a speed of 50 characters per second (10 characters per inch).

Thus, slow, costly and error-prone manual matching and inserting are eliminated.

More from the company at Drayton House, Chichester, West Sussex PO20 6EW (0243 779704).

## INSTRUMENTS

### Fixes the position

MICROWAVE precision position fixing is now in operation at the Port of Miami, where it is being used to provide dynamic accuracies of better than 1 metre for major dredging and re-development work. This should double the present area and capacity of one of the world's busiest passenger shipping terminals.

The first phase of the re-development, costing an estimated US\$65m, is scheduled for completion at the end of 1984 and is being carried out under the direction of Post Buckley Schuh and Jernigan Inc., who have been retained by the Dade County Port Authority as consultants for the project.

In addition to setting out control buoys and continuously monitoring the precise position of dredgers, the MRD 1 system from Tellurometer is also being used to provide automated pre- and post-dredging cross-section data to compute estimated fill quantities; ancillary operations for which the system has also been assigned include positioning of a magnetometer survey of the main port channel improvement area, locating divers for environmental and archaeological studies; as well as the progressive monitoring of the port improvement as it affects the seabed.

Developed by Tellurometer and designed for hydrographic and aerial survey applications, the MRD 1 is the most accurate position fixing configuration available; capable of realising dynamic accuracies of better than 1 metre over distances in excess of 100km, a range which can be further extended to beyond 200km for aerial survey applications.

The system requires no timing or calibration, incorporates built-in microprocessor as well as self-test facilities. Operating on a 3GHz carrier frequency and utilising Tellurometer phase-comparison measuring principles, a basic MRD 1 configuration comprises a portable, solid-state master instrument with integral keyboard facility, together with an omni-directional antenna and two remote units which incorporate duplex speech links and are sited at pre-determined points.

The configuration thus provides a continuous two-range measuring function which can be extended to accommodate a third range by the addition of a further remote; a multi-user option, in which up to six master instruments may share the same two or three remotes using a multiplexed time-sharing technique, is also available.

More from Tellurometer at Oakcroft Road, Chessington, Surrey KT9 1RQ.

**Atlas Copco**  
compressed air  
systems.  
A force put to  
work for you.

## HANDLING

### Moves heavy loads

HEAVY plant can be handled with a truck body that lifts, carries and offloads, developed by Gowers Engineering of Winchester to overcome traditional problems of moving heavy equipment in the construction and allied industries.

Using a Loadlift, as it is called, one skilled driver can complete an entire loading operation at the touch of a button, controlling the hydraulic tail-lift with a 6 tonnes capacity in about 90 seconds. Heavy plant and equipment, excavators, compressors, etc. can be moved to and from confined sites with ease, an operation which would normally defeat a conventional tractor/trailer combination.

The flexibility of the Loadlift platform enables a fork lift truck to be afforded directly on to a four-foot leading bay, for instance. The rear platform area can be lowered to the ground, hydraulically for use as a loading bed. Wheelbarrows or sledge-type pallets can be loaded, either driven or winched on to the loading bed and hydraulically raised on to the chassis.

Gowers Engineering, Easton Lane, Winchester, 0932 64411.

## LIGHTING

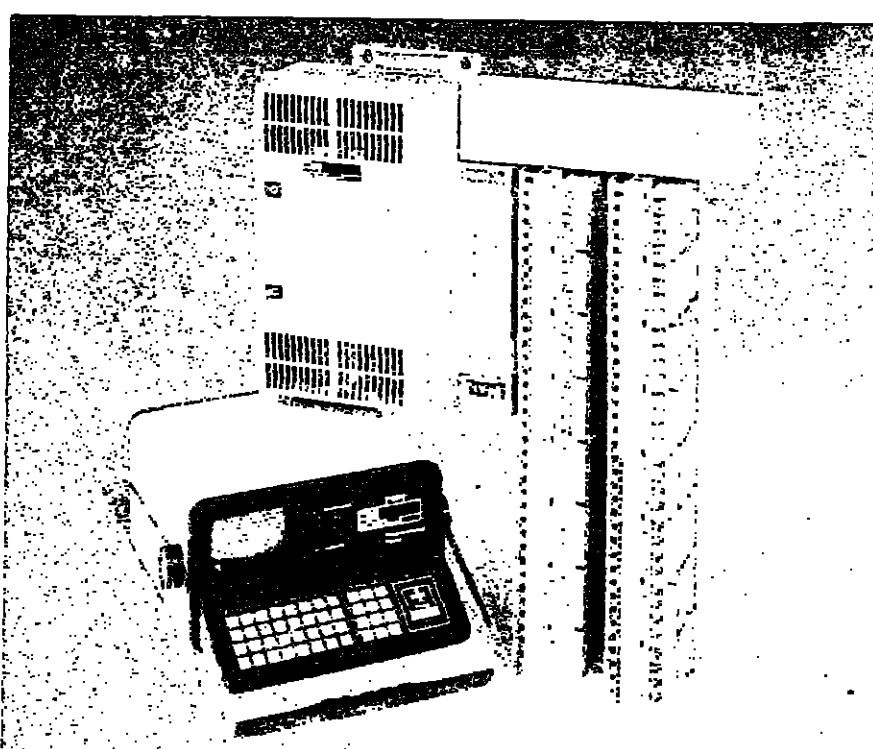
### In better colour

TRUCOLOUR 33 is the name of the latest fluorescent tube from Philips Lighting.

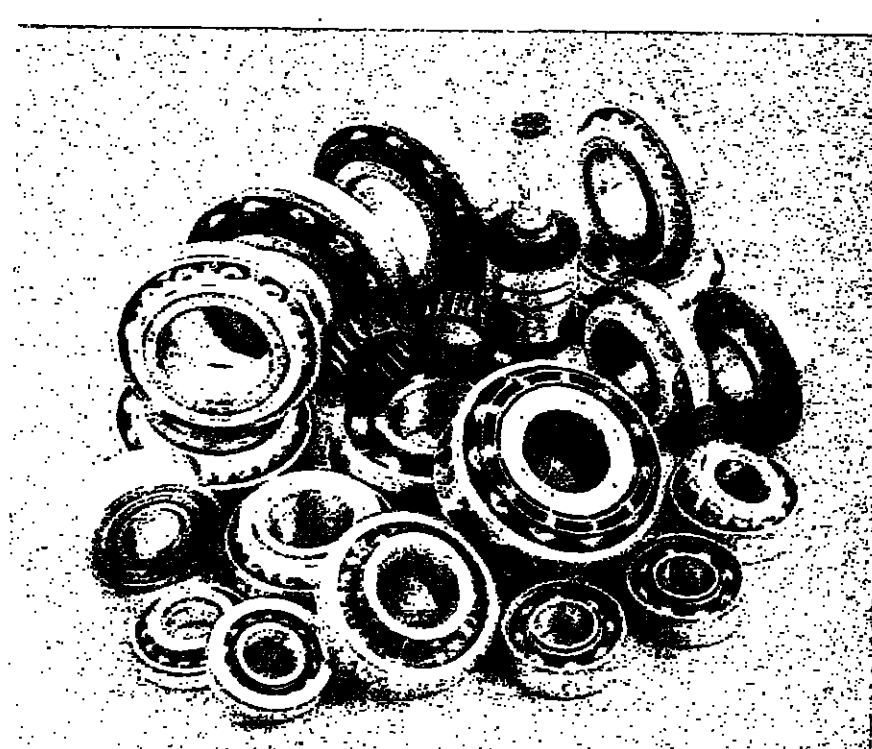
It replaces the Trucolour 37 unit and is some 15 per cent more efficient. It is intended for use where critical colour rendering is important, for example in clinical areas in hospitals, booths and display points in stores, and for art galleries.

The lamp conforms to the Department of Health and Social Security specification DE2.1-DE2.4 and has a colour rendering index (Ra8) of 92.

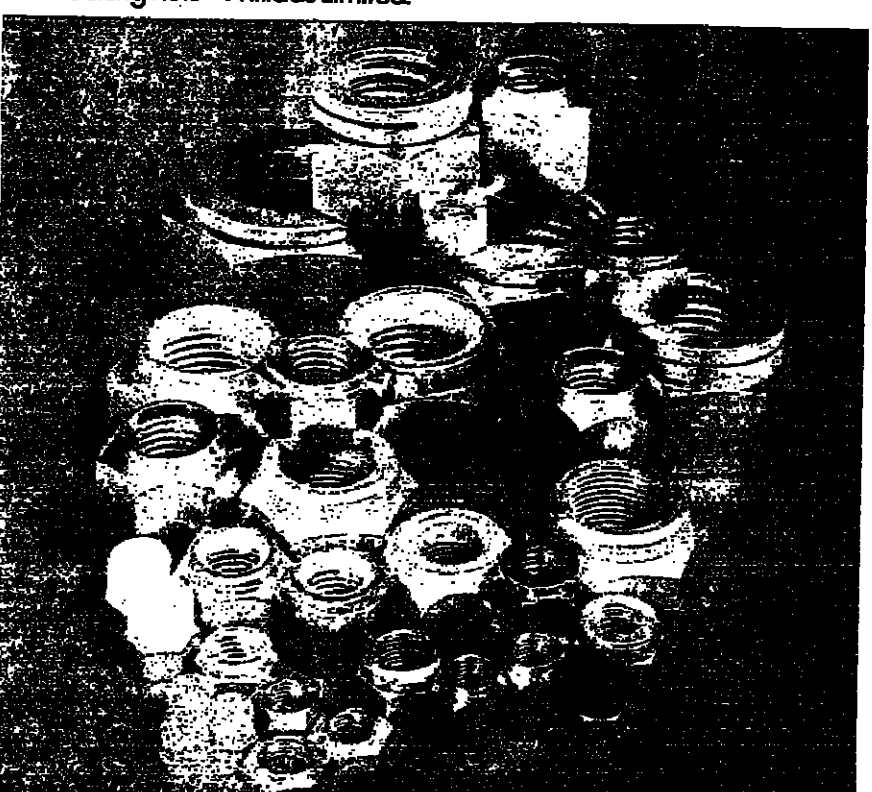
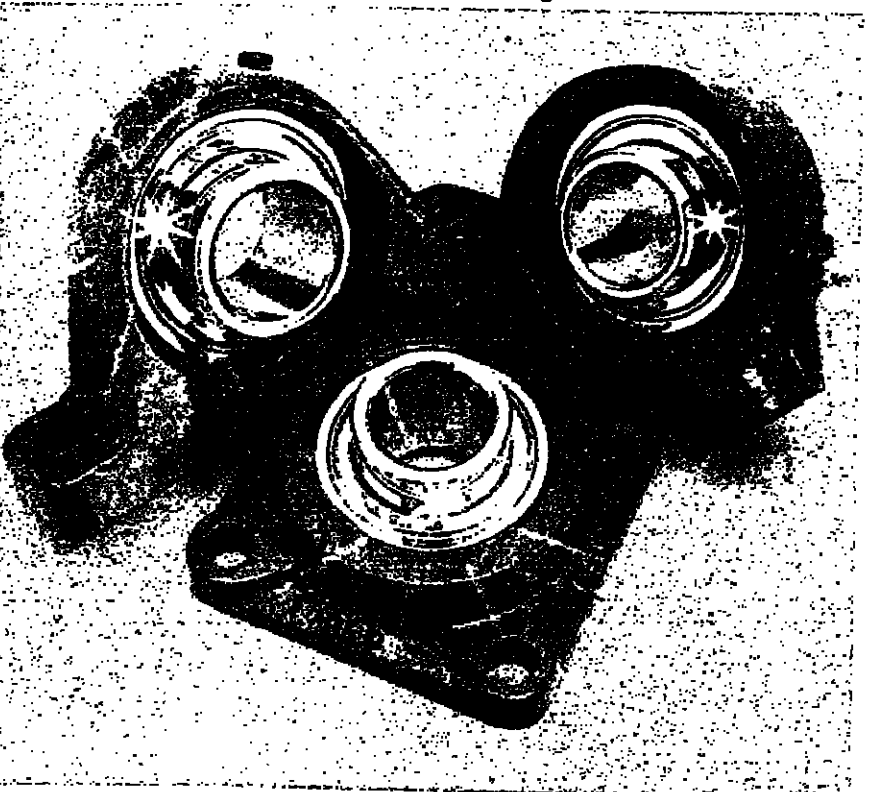
# RHP helps get Mini Metro together



Programmable controller equipment for automatic control—MTE Limited.



The bearings for the Mini Metro—RHP Automotive Bearings Division.



Self-locking nuts—Philidas Limited.

In Europe's newest car assembly line there are more than forty of our programmable controllers, whilst Self-Lube bearings help keep the conveyors rolling smoothly.

Our bearings are fitted throughout the car and our self-locking nuts are in there too.

As an all-British supplier of long standing to BL cars, we wish Mini Metro every success.

**rhp**

**Ransome Hoffmann Pollard Limited**  
Stratton House, 1 Stratton Street, London W1X 5FE

مكزامن الأهل



## FINANCIAL TIMES SURVEY

هكنا من الأجل

Wednesday July 30 1980

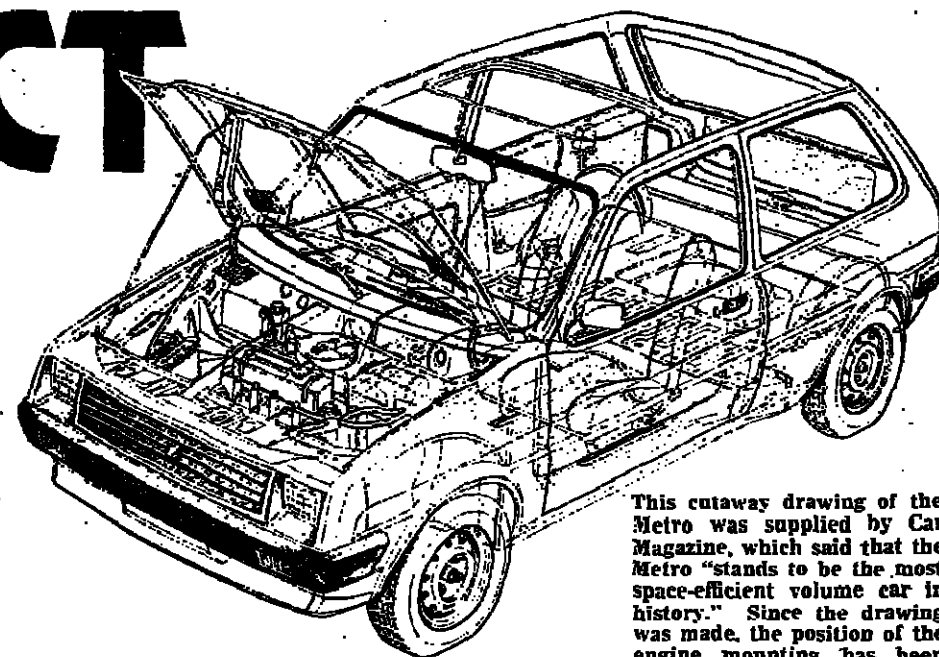
## THE METRO PROJECT



In October, BL will launch the Metro which it hopes will win at least six per cent of new car sales in the UK and also become competitive throughout the small car market in Europe.

## The car that must succeed

By Kenneth Gooding, Motor Industry Correspondent



This cutaway drawing of the Metro was supplied by Car Magazine, which said that the Metro "stands to be the most space-efficient volume car in history." Since the drawing was made, the position of the engine mounting has been moved.

MR. DAVID ANDREWS, the executive vice-chairman of BL, was recently being interviewed by an all-party group of MPs and one asked him whether the Metro, the new car the group is to launch in October, really did represent life or death to the volume cars division.

He replied: "If that car fails it would put that part of the business probably beyond recall."

What Mr. Andrews must have had in mind was that, not only must Metro generate some of the cash for BL's next stage of product development, its successful launch will also have a profound psychological impact on public opinion.

Just as important, it will give BL's 1,800 UK dealers an up-to-date model they can sell in considerable volume. Mr. Tony Ball, who is in charge of BL's world-wide sales and marketing, confidently predicts Metro will take at least 6 per cent of total new car sales, putting it well ahead of the Mini's 5 per cent. Most of the business should be captured from rivals, mainly imports, in the small car market.

This will do much to keep the dealership network from disintegrating. And, as Metro is built to be competitive throughout Europe, it will be the model on which BL will attempt to revive its fortunes on the Continent.

Most of all, Metro will give

BL something very tangible to show this Conservative Government that the new management team is capable of producing the goods in terms of the new car model programme, not just supervising the orderly run-down of a moribund business. The launch of the Metro should provide the right political atmosphere for Sir Michael Edwards, the chairman and chief executive, to go back to the Government and ask for further financial help towards the next important cars in the range, those to replace the Mini and the Allegro.

The first of these mid-range cars, the LC10 five-door hatchback is due at the end of 1982. The second is code-named AM2 (for Austin Morris 2). While the Metro and LC10 are hatchbacks, AM2 has a conventional three-box design with a boot at the back in order to appeal to the company's fleet buyers, who are so important to the UK car market. AM2 is due for a 1983 launch.

## Head-on attack

These two cars will tackle head-on Ford's domination of the UK market through its Cortina, which takes around 11 to 12 per cent of total new car sales on its own.

LC10 and AM2 would also give the Austin Morris part of BL Cars the boost in volume essential if it is to keep both its assembly plants operating at an economic level of capacity.

The Metro will be made at Longbridge, along with the Mini and the Allegro. Some LC10 production could go down the same highly-automated lines as the Metro.

The AM2 range would also help keep the Cowley plant busy. By the time AM2 is launched, Cowley should be making the Bountys, the car jointly developed with Honda of Japan which is to be launched at the end of 1981, and the revamped Princess, a "face-lifted" hatchback derivative of the current model, to be introduced soon after Bountys.

This all adds up potentially to a strong product range, particularly for the UK.

The problem is that BL, according to most observers, simply cannot afford to finance AM2 and LC10.

On the face of it, the mid-range cars could cost a further £300m—the going rate for car projects of its type. But that could be too high an estimate, given that the £285m spent on Metro included a major overhaul and modernisation of Longbridge so that not much extra work would be needed to add LC10 to its output. LC10 could go down the same lines of robots as the Metro, for example. And all early development work on LC10 has been completed.

Even so, BL would find it difficult to raise half that sum. When the corporate plan was approved by the Government,

last December, it was agreed that BL could have a further £430m of State cash during the following three years. That total represented the £225m balance of the £1bn promised to BL under the terms of the so-called Ryder plan, drawn up after the Government stepped in to save the group from financial collapse in 1975, plus £205m to meet the cost of redundancies and closures under the company's restructuring programme.

For the financial year 1980-81, BL received an immediate £150m by way of new capital and a further £150m to be drawn "on evidence of need." Some £75m of that £150m was drawn in May.

Sir Michael has had no help whatever from "external factors" since the plan was drawn up. In particular, the combination of an over-valued UK currency, plus high inflation has been making life extremely tough for British exporters.

BL has for the past 12 years been Britain's biggest foreign currency earner and so is suffering badly.

Mr. Andrews told the committee of MPs that BL's high level of exports—£500m a year against imports of £100m—meant that "if the pound appreciates, we take a hard knock."

Ford, which has spread its business across Europe, has a better-balanced trading pattern

and could therefore even out currency fluctuations. "We estimate that this has been worth between 2 and 3 per cent on Ford's margins in the past 18 months," commented Mr. Andrews.

In BL's home market profit margins have doubled for French and German groups and quadrupled for Japanese manufacturers in that time.

This gives the importers much more room to manoeuvre when trying to maintain profitability in the steeply-declining UK new car market.

## Export markets

The high value of sterling has also played havoc with BL's business overseas. Buses and trucks, its major export earners, are being sold at wafer-thin margins and the Japanese have been able to erode Land-Rover's share of export markets because there is such a wide price differential between their four-wheel drive vehicles and the previously-preferred Land-Rover.

BL's attempts to stop a mass desertion of its dealers in the U.S. has not been helped by the sterling-dollar relationship although there are other more important factors involved—such as the lack of a suitable model for the States in the range.

So the past few months probably have been as difficult as any BL has ever experienced. And it is faced with a Govern-

ment determined to make State-owned industries keep to their financial targets.

Industry secretary, Sir Keith Joseph, when questioned about further funds for BL, said recently: "We shall be very, very hard to persuade. BL has a very hard struggle and the people concerned know that it has got to survive on its performance."

Optimists would say that Sir Keith did not entirely rule out the possibility of more cash for BL with that comment. A successful Metro might well soften some of the harder hearts at the Treasury.

So, what do we know about Metro, so far? The word "Metro" covers a European range of cars capable of offering extreme economy at one end or high-performance, highly-luxurious specification at the other.

Among other things, Austin Morris has claimed Metro is very spacious and that it is all usable space. For example, although externally it is smaller than Ford's Fiesta, its major competitor, it offers more internal room than the current Ford Escort.

Running costs will be very low because the car was designed to be easy to service, despite being front-wheel-drive, and economical on fuel—some people are even suggesting, unofficially, 60 miles to the gallon at 50 miles per hour.

Good fuel economy has been achieved because the car has a

very low drag coefficient so that it cuts through the air easily and because it uses a revitalised version of the "A" series engine currently used to power the Mini, the Allegro and some Marinas.

AM compared the engine with those of the competition and became convinced it had the right torque (pulling power) at low speeds, yet the "long-legged" ability on motorways. So the new "A-plus" engine has been "improved in many respects"—and so has the engine plant at Longbridge—at a total cost of £30m.

AM says that no other model from any manufacturer has been so thoroughly "audited" before its launch. Metro has been checked over by engineers and stylists from outside BL. The company has had its fleet customers, distributors and key suppliers in to give Metro a going over. All have been asked to suggest potential improvements.

## Road tests

Over 1m miles of road testing have been completed. For the first time in BL's history, prototype cars have been made on the same tools as those to be mass-produced later.

AM is taking a great deal of care with the quality of Metro and this will extend to the cosmetic elements, such as paint work and carpeting.

But can Metro make a reasonable profit?

The introduction of highly-automated production systems for body building and assembly at Longbridge will put BL on an equal footing with its international rivals. Output at Longbridge is planned to improve from the current 16 to 17 cars a year per man employed to 20 this year and 30 by the end of 1981. At that stage, it would be up to the best Japanese standards.

BL says it has reasonable manoeuvrability about the price it will charge for the Metro range. But if it follows its dealers advice and prices competitively it would need to sell Metros at the rate of at least 5,000 a week—6,000 a week to be on the safe side—according to many industry watchers.

BL plans to build up steadily from an initial 3,000 a week to 6,500 by the second quarter of 1981 after the Metro has been launched on the Continent.

Simple arithmetic shows how essential it is for BL to succeed with Metro in the rest of the EEC.

Mr. Tony Ball, marketing director, says he aims to achieve 6 per cent of total UK new car sales with Metro. If the UK market stays roughly at 1.5m a year, that indicates 90,000 Metros to be sold in Britain—or 1,500 a week. That leaves 4,700 a week for export.

## Two well-known Midlands families look forward to The Great Day.

Your correspondent has just learned that two Birmingham celebrities, Lucas and Metro have been secretly engaged for some time.

Lucas has of course been closely associated with the British Leyland family for many years and this latest liaison comes as no surprise.

Little is known of Metro, who is being closely guarded from news hounds such as myself. But I can reveal that Lucas Electrical, together with Lucas Girling, Lucas Batteries and a family member living outside Birmingham, Rists, are already well prepared for The Great Day. Whispers are that this will be in early October.

I am told by a reliable source that, following a truly magnificent reception at the N.E.C., the going-away outfit will be stylish and sophisticated, in line with the high technology of the eighties and reflecting the quality and status of all concerned. Congratulations both.

Lucas

Lucas Electrical—manufacturers of electrical and electronic systems and components for lighting, starting, ignition and automotive accessories.  
Lucas Batteries—for every form of transport.  
Lucas Girling—braking systems and equipment for cars, commercial vehicles, off-road vehicles and railways.  
Rists—wiring systems for every automotive application.



# GOOD LOOKS TO THE MINI METRO FROM BERGER

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ONE OF BL's major problems will be to convince customers that it can build the Metro to a high quality standard, in spite of the volumes involved.

No amount of advertising claims will help. As Mr. Harold Musgrove, chairman and managing director of Austin Morris, has said: "We must not just satisfy the customer. We must impress the customer. I want the customer to tell us that our quality has improved."

The search for high quality on the Metro begins at the Swindon plant. Each of the 150 presses which will hammer out Metro body panels has a sensor attached to send back messages to a computer which judges if each panel has exactly the right shape. If not, the computer warns the operators to check.

At the other end of the building process the search for quality involves every Metro being taken from the end of the line to a customer validation building for final inspection. A careful checking process will ensure no Metro leaves Longbridge with, for example, marks on the upholstery or carpets. More important, checks also ensure that the paintwork is perfect.

If the paintwork is not perfect there will not simply be a quick touch-up job. Longbridge now has one of the most impressive paint rectification bays in the world.

The £5m spent on the rectification-bay area should pay off handsomely because customers' first impressions of any vehicle are those involving the "cosmetics," such as paint and other finish.

Computer control is the key element in making a modern car plant operate effectively and the use of computers by BL to monitor and control the way the Metro is built goes as far as anything yet seen in the industry.

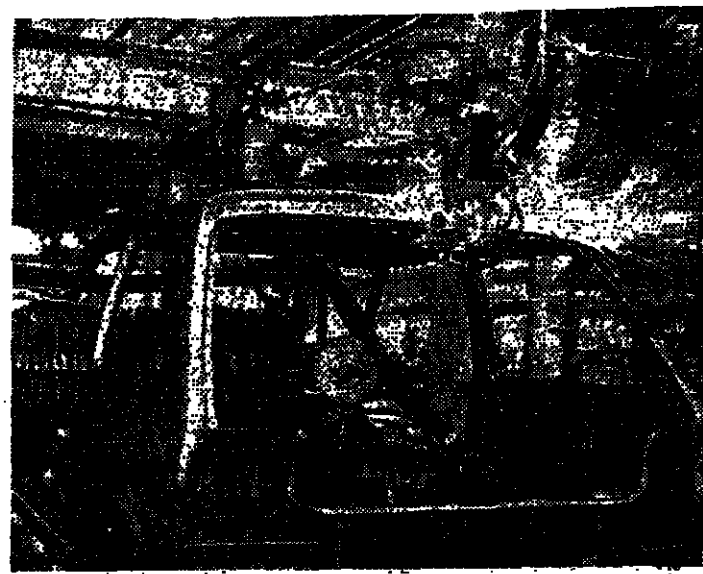
BL Systems, the group's own computer subsidiary, even devised a unique programme to simulate the work flow at Longbridge before the plant was reshaped and new equipment installed.

Using a colour VDU (visual display unit), BL Systems was able to locate potential bottlenecks and other difficulties much faster than the conventional way when scale models are used. This computer programme—dubbed the "See Why" system—is now being sold to other companies. Alcan has used it for an aluminium smelter and a ship repair yard design team is using it.

Computers check incoming raw materials to be used for

## THE METRO PROJECT II

# Advanced technology to ensure high quality



Two lines of 14 robot welders are individually controlled by micro processors. Above: robot arms at work on a Metro body shell.

Metro for quality—and quantity. Suppliers sometimes do send too much (perhaps they have been let down on another contract and don't want their own stocks to build up) and of course they charge for all that has been delivered.

But each consignment is checked by BL's computers. Light pens are simply wiped across the computer bar codes on cards attached to containers and the computer makes an almost-instant decision whether or not to accept.

### Complex system

In the Longbridge plant the computers don't work in glorious isolation but they "talk" to each other. The 19 mini-computers maintain a continuous dialogue to replenish stock levels, establish exact details of goods leaving, arriving and produce quality inspection instructions.

Using conventional wiring, the space needed and the cost would have been prohibitive. But BL Systems has installed a single coaxial cable called Videodata (for which Ferranti has the UK licence), four-and-a-half miles long into which all the computers, visual display units, light pens and communications systems are plugged.

BL Systems says this is rather like a radio broadcasting system where terminals are tuned to the particular station (computer) they want. It operates by time and frequency division multiplexing and is linked by BL's own microwave telephone network to the very powerful computers at the BL Cars Data Centre at Redditch.

In all, £3.5m of computers and software have been in-

stalled at Longbridge.

One example of the "tuning in" process is the way the quality controllers at Longbridge use light pens as the Metros make their way through the building process. The controllers can plug into the coaxial cable and, by touching the computer card attached to each car in the right place, can inform the computer about what needs attention.

However, to start at the time when the body panels arrive from Swindon, the building process starts at the panel store in Longbridge which is controlled by seven of the mini-computers.

They make sure that the fully-automatic storage facility has panels and other items stored evenly so that, among other things, one panel does not spend 18 months at the back of the store before it is used.

The first welding process is assembly of the floor pan, a visually-impressive process carried out by enormous Kuka multi-welders. Austin Morris has identified the front sub-frame supports as critical points if Metro is to have a long life and it is important that water is kept out. This is achieved by a comprehensive weld and these sub-assemblies are welded by carbon dioxide on a ASEA seam-welding robot rig before being fed to the Kuka line.

The underfloor assemblies pass by conveyor to body tagging lines where they must pre-assembled front ends, sides, tailgate apertures before entering one of the two Seiki body-framing lines. These lines each have four multi-weld stations which determine the critical dimensions of the body and consistency is

assured here by an automatic dimensional check.

There is also a complete three-dimensional check. Twice every shift a sample car body is placed on an 80-ton granite slab immune from any vibration. Every panel and curve is then explored by an automatic probe with a laser-beam head to make sure that the production tracks have not varied even a fraction from the ideal programmed into the computer's memory.

The LK rig which carries this out takes 124 measurements in five hours. By conventional means this process would occupy three to four days.

Now the framework is built up, the body shells move to the two lines of 14 robot welders individually controlled by micro processors and electronically synchronised. These are the rotating and extendable, Grunne "arms" which move up and down, in and out, clamping and spot welding the body consistently day after day, week after week.

The bodies then pass to finishing lines where doors, front wings, bonnet and fenders are added. The complete bodies then go to Longbridge's improved paint plant where they receive an electro-coat finish.

### Computer control

A key system is the fully-automated painted body store management control computer which makes the decision as to which car will be built next.

It juggles with a variety of information. First, it checks the order bank (what cars have customers ordered?). It checks information from the painted body stores and the parts control system (are all the bits and pieces available?).

It has a look at the assembly line balancing rules (high and low work content cars must be balanced so that bottlenecks do not occur).

All this is done in three-and-a-half seconds.

The computer then tells the stores to deliver the body to the assembly line and calls up the required engine and transmission unit, seating and other major components and produces a vehicle identification plate.

Metro bodies are trimmed and the cars finally assembled in a greatly expanded and modernised main car assembly building alongside the Mini. At the end of the three new assembly lines, every car has a four-minute brake dynamometer test, an emissions test and the Metro has a water test before going on to the valeting and rectification area.

Kenneth Gooding

### PROFILE:

## Jim Donaghy

FOR Mr. Jim Donaghy, the Metro project has been part of his life for more than four years. He was the man charged in 1976 with the task of pushing through Britain's biggest investment in a new car plant.

Speaking now from the massive body factory where robots are already relentlessly assembling the new car, he claims never to have been daunted. "I did not look for someone to give me detailed terms of reference, I said that whatever it takes to make the project a success I will do."

A practical man who rose through the management ranks, Mr. Donaghy joined Fisher and Ludlow, in Birmingham, as an engineering apprentice in 1952. Rather than "get left in a backwater," he moved in 1962 to Ford where he gained what proved to be valuable experience for his present job.

At Ford, Mr. Donaghy worked in the team that planned the \$100m investment in new assembly facilities in Europe for the Fiesta model.

"I had not thought of leaving Ford, but in 1974 I had an approach from British Leyland," he says. The job offered was as production engineering manager for body and assembly activities within the cars division.

### So exciting

"It seemed a much more exciting and demanding job," he laughs. "I did not realise at the time just how much more exciting."

At the beginning of 1976 Mr. Donaghy was asked to put the Metro project into action. He gradually built up a launch team, covering all aspects, such as finance, personnel and purchasing, but it never numbered more than 12.

Each of Mr. Donaghy's specialists was able to draw upon the resources of his own department — "That way a lot of people were involved in the Metro project and knew what we were doing. There is always a risk that such a project team can be regarded as elite and become remote."

There was never any risk that Mr. Donaghy would become remote. He has been an ever present on the Longbridge site, working a 12-hour day, six days a week. Asked whether there had been time for holidays, he laughs: "I am supposed to be on one now, but don't tell my

wife." On a serious note, he stresses the importance of making himself available to take quick decisions and deal with unexpected problems that might arise.

A key factor that has helped smooth progress on the project is the good rapport Mr. Donaghy has established with the trade unions. Senior shop stewards speak highly of his "blunt and honest" approach.

As head of the launch team, Mr. Donaghy has the final responsibility to "sign off" each aspect of the project. On labour relations, for example, he must be satisfied the necessary agreements have been reached on manning and methods of operation. "Once I say 'yes we can do it,' we have to be able to do it."

Arthur Smith

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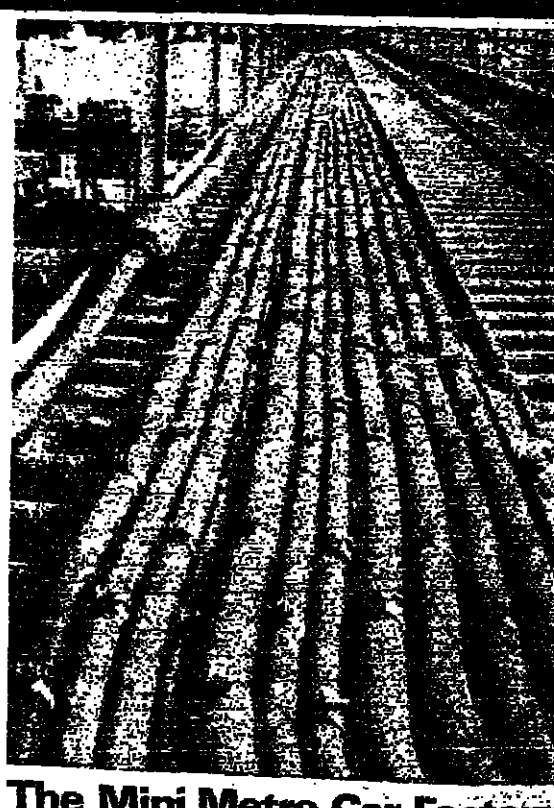
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With capabilities like this the PLC resembles a small computer but with several distinct advantages which include the ability to operate in an industrial environment, to interface directly with the machine or process and, perhaps most important, to be programmed in simple language familiar to shop floor personnel.

Allen-Bradley PLCs are widely used to control automatic welding lines producing the Mini Metro's underbody, doors, framing, body and dash.

They also monitor the individual welds to ensure they fall within the specified limits. In addition, all mechanical handling systems for assembly and paint shop will be under the control of PLCs. The Mini engine, too, is produced on machine tools, many of which are controlled by PLCs.

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## Encouraging trend in labour relations

A BREAKTHROUGH in labour relations at Longbridge—BL's biggest plant and one with a troubled strike record—seems possible. There has been a marked change in attitude by the 20,000 strong labour force in recent months and nowhere has it been more pronounced than in the Metro body shop—the new 750,000 square foot building that houses the robots and computers that represent the latest in car assembly technology.

The 1,000 workers already recruited to operate the highly automated equipment have identified with the Metro project and distanced themselves from the more mundane disputes—such as the protest walkout over tea-breaks—that have troubled Longbridge in recent weeks.

From the outset, the Metro project, drawing upon the best work practices and technology available to the motor industry, was seen as a way of involving the workforce and changing attitudes to work. While BL would concede that efficiency, rather than sociological theory, has been the principal criterion for the choice of equipment, the cynicism of the critics has not been justified.

Even union officials express surprise at the ease with which BL appears to have gained the co-operation of the workforce for new work practices. Mr. Jim Donaghy, the man heading the Metro management team for the past four years, says: "We have done more than establish a building and management structure. We have created an environment where employees associate with the product rather than their own job. They accept responsibility for their part of production and take pride in its efficient operation."

BL management travelled the world, visiting plants in Europe, the U.S. and Japan before choosing the equipment for Longbridge. The emphasis for the Metro is upon ease of assembly, giving the repetitious and arduous tasks to machinery rather than men.

The fundamental change in work practices can be illustrated by an examination of manning levels of the two Kuka

multiwelders, each costing around £3.5m. Each machine is capable of 650 spot-weld operations and joins together the front, rear and centre sections of the Metro underbody.

The section is manned by eight to ten operators, six maintenance men, one supervisor and one inspector. Conventional manufacturing would require an 80 per cent increase in operators who would, nevertheless, be working at a lower speed. Kuka operators, rather than confined to one routine process for the whole day, have a range of activities from loading the machinery to manual operation of a robot or spot-weld gun.

### More efficient

Overheads are cut on the Metro by more efficient use of supervisory and inspection staff, but perhaps the most dramatic economy is in the effective use of maintenance staff. At BL, the craft groups are organised separately as electricians, machine tool fitters, pipefitters, and millwrights. In the event of a machinery breakdown, the production foreman would have to go to the trade foreman of each of the skilled groups to enlist their aid.

Often it is difficult to assess, initially, whether it is an electrical or mechanical fault. Indeed, while an electrician might be able to rectify a simple fault on a machine tool he might have to call in a pipe-fitter to dismantle the hydraulics and a tool fitter and millwright to remove other parts.

For the Kuka machine agreement has been reached with the craft unions that the six-man maintenance team will be comprised merely of electricians and machine tool fitters. These men will act as a team in the event of any breakdown and call in specialist crafts whenever necessary.

BL insists that skilled men are not being asked to cross demarcation barriers. They are simply able to respond to problems more quickly and diagnose the faults. Another advantage claimed is that maintenance men are responsible not for the whole range of plant,

but for specific machines which gives them a greater responsibility and pride in their work.

Longbridge management maintains that agreement has been reached with the trade unions on the balance of skills for each of the production processes. Maintenance of the seven miles of overhead conveyors in the body shop, for example, is split between the electricians and millwrights.

BL attributes its success in negotiating flexibility in the use of labour in what is a highly sensitive area to the fact that it requires a net increase in use of skills. While each of the craft unions has had to break from tradition, there has been no loss of membership or jobs.

The flexibility in working methods and co-operation of the workforce to change owes much to the worker participation machinery introduced at BL shortly after the Government rescue in 1975.

From September, 1976, a committee of 11 senior shop stewards and eight managers met regularly to plan the Metro project.

"We gathered at least once a fortnight and sometimes four times a week, if there was a particular problem to sort out," says Mr. Donaghy.

"The trade unions made a valuable contribution. They helped decide the method of production. If they came up with a good suggestion we incorporated it."

Indeed, it was as the result of a visit to the Fiat factory in Italy that the trade unions recommended "the teamwork" concept, with workers required to co-operate in a range of operations rather than specialising in one repetitive task.

The shop stewards became so committed to change under the leadership of Mr. Derek Robinson, the Communist convenor, that they lead the way. Mr. Donaghy reports that, during 1978, workers in the paintshop were required to undertake three fundamental changes in operations.

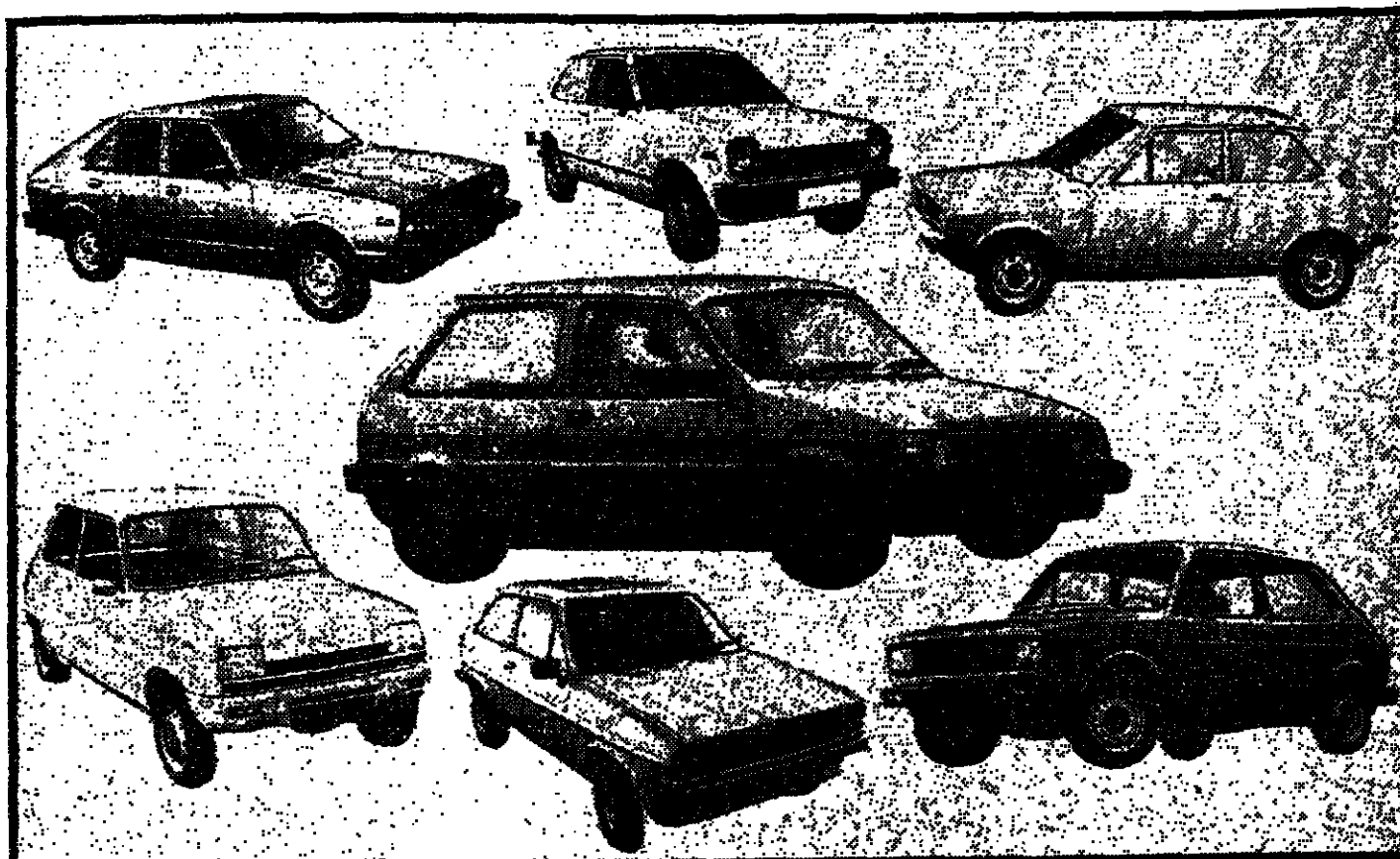
"A great number of people were affected but co-operation was tremendous. At one point, we managed to maintain production even though construction work meant the digging

of a massive pit, 45 feet long and 20 feet deep."

The Longbridge stewards pulled out of participation last autumn in protest at both the alleged lack of progress in worker democracy and also the company rationalisation plan involving more than 25,000 redundancies.

But Mr. Donaghy argues that the loss has not been significant because a relationship had already been established between management and the workforce—"I get phone calls from stewards and management alike as soon as a problem begins to appear. Any new work practices do not come as a surprise because we have discussed them at length. Everyone knows what is going to happen."

Arthur Smith



In the centre, BL's new Metro, surrounded by some of its rivals in the small car market. Top row, from left to right: the Datsun Cherry; the Toyota Starlet and the VW Polo; bottom row, from left, the Renault 5, the Ford Fiesta and Fiat 127

## Fierce rivalry in small car market

IN 1977, BL changed its mind about producing a replacement for the Mini. It decided instead to go for a new segment of the car market which it saw opening up.

As customers' purchasing power increased, buyers demanded cars with luxury features. At the same time, the sharp rise in the price of petrol was a constant reminder about the cost of running a car.

BL decided it needed a car with luxury features, but a low "cost of ownership."

During the development and subsequent processes, BL attempted to make Metro better than any other car in its class by comparing everything that was done with the aims set out in a very corny acronym.

It went like this: S, for space: Metro is smaller, outwardly, than a Fiesta, but has more space inside than an Escort. And the intention was to obtain usable, flexible space. (No wheel arches filling the boot).

U, for user costs: BL aimed to keep the Metro easy to repair, and easy to service. However, the major element in the "cost of ownership" is depreciation. Second-hand value will depend on C.

C, for certainty—which BL used to describe a combination of reliability, durability and quality.

C, for comfort: This includes ride quality and noise levels.

E, for economy: But economy was not to be achieved at the cost of drivability.

S, for safety.

S, for style: The style had to be practical—for example, giving good visibility, and a low drag coefficient.

Put the letters together and you have "success." Or so BL hopes.

According to those who have driven the Metro, BL has achieved everything it set out to achieve. They are not unbiased observers, of course, coming as they do from within BL itself.

One of the Metro's greatest fans is Sir Michael Edwardes, the chairman.

The BL people claim that Metro has the "magic" ingredient missing from many small hatchback cars—a distinct character of its own. Metro will need that extra edge because it

is up against some tough competition.

Not so much in the UK, however. Provided BL can produce the car at a steady volume and achieve anywhere near the quality it has been aiming for, then the 6 per cent share of the total new car market which the group aims for with Metro, should be achievable.

There are 1900 BL dealers around the UK who are desperately waiting for the car. They have many customers wanting to take delivery. BL will have at least 6,500 Metros with the dealers by launch date.

Greater demand

However, "character" as compared with the blandness and "sameness" often associated with small, front-wheel-drive hatchbacks, will certainly help BL sell Metro on the Continent. This style of car is in much greater demand on mainland Europe and therefore the search for something out of the ordinary is more keen among customers.

BL hopes to achieve pan-European coverage with Metro by next April. To some extent,

though, that will depend on the way production builds up in the UK and how long it takes to satisfy demand in the home market.

BL also hopes that Metro will be the car with which it can strengthen its Continental dealership network. With the right product, more and better dealers will be easier to attract.

In Britain, the small-car market has sprung from only 9 per cent of total new car sales in 1970 (nearly all accounted for by the Mini which sells at the rate of 70,000 to 80,000 a year and peaked at an annual 120,000) to 18 per cent this year.

The small-car sector is really divided into two segments—one for people who want a second car or a runabout, a classless kind of vehicle. BL expects the up-graded Mini to compete in this segment for some years to come.

The second segment is the "family hatchback" sector. As this description suggests, it has been mainly an area where the private buyer is predominant.

unlike so much of the UK new-car market where the company car fleet buyers reign supreme.

Metro will mainly be taking on importers when it is launched. Imports account for around 80 per cent of small-car sales. Ironically, Ford's Fiesta is generally perceived to be a "British" car and is often bought for this reason. In fact, Spanish-built Fiestas account for roughly 20 per cent of the small-car sales in Britain and help keep the import content very high.

Fiesta is Metro's main rival in the UK. Last year, Fiesta took 3.42 per cent of total new car sales with around 55,500 registered.

The other cars which Metro will challenge, in descending order of importance, are: The Datsun Cherry (1.17 per cent of the 1979 new car market); the Renault 5 (1.33 per cent); the Volkswagen Polo (1.05 per cent); the Fiat 127 (1.0 per cent); the Toyota Starlet (0.46 per cent); and the Honda Civic (0.22 per cent).

Kenneth Gooding

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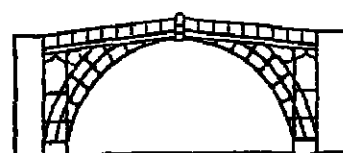
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## THE METRO PROJECT IV

# Concern among the car component suppliers

THE HOPES of much of the UK motor components industry, particularly in the Midlands, must rest on the sales performance of the Metro. The importance of the new car lies not just in the immediate orders it will bring but in whether BL can halt the seemingly inexorable slide in market share.

Sir Michael Edwardes, the BL chairman, in a recent speech defending his company's purchasing policy gave figures which underline how vital the State-owned concern is to the suppliers. He said BL buys well over 90 per cent of components in the UK, spending around £2bn each year with 7,000 businesses.

But it is not only the well-publicised problems of BL that are causing concern in the components sector. The company is already struggling on the export front because of the strength of sterling and the weakness of overseas markets have been hard hit by the recent sharp fall in UK demand for cars, commercial vehicles and tractors.

The latest forecast from the Society of Motor Manufacturers and Traders is that UK car production will total little more than 920,000 this year, compared with just over 1m in 1979. The fall in demand, the decline of domestic car assembly in the face of rising imports can be appreciated from the fact that output in 1972 reached 1.9m.

In the commercial vehicles sector, whose difficulties are only too well illustrated by the recent decision of Ford to call in a receiver, output this year is expected to drop to 375,000 from the 408,000 of 1979.

Against that gloomy background many component suppliers are considering ways to reduce capacity. Short-time working is already widespread and companies such as GKN,

Wilmot Breeden, and Renold have announced redundancy programmes.

The depth of the recession is perhaps best seen in the plight of the ferrous foundry industry, which supplies more than a third of its output to the automotive sector. Up to 50,000 workers are currently on short time. Birmid Qualcast, with one of the biggest foundry operations in Europe, has shut four plants and shed more than 1,760 jobs in the past 12 months.

### Labour force

Many component makers are looking for a cut in their labour force of around 10 per cent. The extent to which that can be achieved through natural wastage rather than redundancies will clearly rest upon the performance of the vehicle assembly industry over the next few months.

Mr. David Owen, chairman of Robery Owen, suggests that some companies may delay firm decisions until autumn production schedules become clearer. An important factor will be the August car sales with the introduction of the "W" registration.

One of the problems with which the components sector is grappling, the strength of the pound, has been highlighted by Sir Michael Edwardes. He declared that BL intended to "go on buying British wherever possible," but pointed out that the commercial pressures to buy foreign were very considerable.

First, the strength of the pound provides a very significant price advantage for overseas producers. Second, the UK rate of inflation is adding to costs, which in turn is being fired by high wage settlements.

Sir Michael said 40 per cent of BL's suppliers had made wage awards this year of 17 per cent or more, compared with

the company's own deal at 7½ per cent.

"We have made it very clear to suppliers that we cannot allow them to pass on inflationary wage increases to us through increased costs while our own employees have settled realistically well below inflation."

Sir Michael warned: "If this means UK suppliers become uncompetitive, then we really have very little alternative but to look elsewhere, where prices are lower and enable us to contain our prices."

The message about wage costs had already been taken on board by the components companies. Lucas Industries has told leaders of its 65,000-strong workforce that in the current trading climate increases of more than 10 per cent cannot be contemplated.

What is worrying suppliers more about BL is the question of the company's ability to lift market shares from the 17.8 per cent achieved in the first six months of the year. The company's weakness in recent years has been its ageing model range. The launch of the Metro in October should give a powerful boost, as should the new car to be made jointly with Honda of Japan.

But while suppliers can see the benefit to BL of turning to Honda for the quick introduction of a new model, there is considerable scepticism about the amount of business the UK components industry will win.

The engine and transmission for the car, code-named the Bounty, will be imported from Japan, but BL has said the UK content will eventually be well in excess of half the cost of the vehicle. Suppliers point out, however, that with lower production runs and the complicated Japanese pricing structure it will be difficult to compete.

Development work is going ahead on BL's planned new middle range car, the LC 10.

but suppliers are conscious that whether or not the investment is ever undertaken will depend upon the company's performance this year and indeed upon the success of the Metro.

Given the uncertainties which have hung over BL in recent years, suppliers have attempted to reduce their dependence and to increase exports. Such a strategy has been pursued successfully by companies such as GKN, Lucas and Automotive Products which have the technical expertise and resources to develop overseas markets. Such companies have invested in the U.S. to take advantage of the trend towards smaller European-type cars.

A study undertaken by the Department of Industry in the West Midlands suggested, however, that of companies which had attempted to diversify into non-car work only 7 per cent had been successful. The problems were caused by lack of sales experience, machinery too specific to the motor trade, and the need for long production runs. Another factor, particularly relevant as industry moves more deeply into recession, is the lack of other opportunities.

Nor is the move into export markets an easy option. The study showed that two thirds of the components companies had no overseas sales at all and few were optimistic about the potential.

Prospects at the moment can only be described as grim as sections of the U.S. and European automotive industries go onto short-time in response to falling demand. Even Lucas Electrical, in calling for a cut of 3,000 in its labour force, pointed to the problem of competing in overseas markets.

The UK components industry, with little else to give it cheer, can at least look to the October launch of the Metro with the hope that BL will be made that much stronger.

Arthur Smith

## ACE CONTROLS. THE MINI METRO.

From start to finish on the Mini-Metro production line, Ace electrical and electronic systems are in control. Ace designed and installed the software and hardware content for the complete monitoring of welding current, ensuring consistency of welds on the Metro floor pan. They also designed and installed the electrical control system for the undercoating paint process and the control panel for the compressor house. Many of the panels controlling conveyor systems were designed and built by Ace, as was the welding coolant water pump control panel in Longbridge's West Works. For the provision of facilities monitoring which allows for the continuous feed back of management information, Leyland brought in Ace at the project's design stage and both to install the transmission programs and undertake development of colour graphic displays. From design to installation, in fact, Ace Controls.



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## BEST WISHES TO BL CARS FOR SUCCESS WITH THE MINI METRO

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## Over £200m invested in new equipment

THE £275m INVESTMENT in new and improved production facilities for the Metro project, of which more than £200m has been for equipment alone, represented one of the biggest opportunities for British engineering in the past decade.

BL's requirements of its potential suppliers were stringent from the financial, technical and delivery points of view. It was well known that BL did not have limitless supplies of cash. It had entered the market late for this type of car, so it had to be assured that the whole project would be working within the shortest possible time, within the limits imposed by getting it technically right first time. But above all, BL was entering the arena of using particularly sophisticated equipment, much of it requiring the suppliers to make a technical leap.

The equipment industry, on the other hand, had enjoyed fewer opportunities for keeping up to date than the Continental competitors who have been supplying their expanding motor industries. The industry had shrunk in the absence of orders, with the result that it could not meet all of BL's requirements within the time scale.

### BL's policy

Nevertheless, BL says that 80 to 85 per cent of the equipment ordered for the Metro is British. BL's policy is to "buy British" where possible, as long as the specification, price and delivery matches those of foreign competitors. In some areas of equipment for the Metro, this was not possible. Most significantly, this applied to the multi-welders supplied by the German company, Kuka, which are used for welding together the three principal panel assemblies used for the Metro underfloor, the whole job performed in one operation.

The complex machines are controlled by a series of programmable logic controllers which monitor the sequence of manufacture. The Sciaky automated body-framing lines, supplied from France, are the other major exception to the British rule. These incorporate a series of four multi-welding stations which determine the critical dimensions of the body and perform key spot welding operations. Both Kuka and Sciaky have supplied similar welding complexes to Continental motor manufacturers, and it was undoubtedly the proven ability of these installations which decided BL in going abroad. Some of the sub-contract work, however, was done in the UK. In the case of Kuka, this amounted to 15 per cent of the final equipment.

The British welding machinery specialists, British Federal (part of the Land Group), has supplied four body side assembly lines. These are also controlled by pro-

grammable logic controllers, and the system incorporates an electronic weld control system developed in conjunction with BL.

Mr. Duncan Ewan, managing director of British Federal, says the Metro project has provided a tremendous impetus for British industry. It was imperative that we could show the world that we still had the skills for the design and manufacture of such systems.

British Federal's contract with BL was worth £2.5m. The company also tendered unsuccessfully for the welding complexes which went to Kuka and Sciaky, its main drawback being that it did not have the capacity to meet BL's strict delivery schedule. VS Engineering, another British company, has also supplied sophisticated welding equipment on the project.

The new West Works body factory at Longbridge is where much of the advanced technology on the Metro is concentrated. As well as advances in welding, the factory has impressive storage and handling facilities. The body panels storage "warehouse" (which is complemented by the painted body stores in the main Longbridge plant) has been designed and constructed by Jenkins of Retford.

The warehouse (controlled by seven mini-computers) comprises automated narrow-aisle cranes which can reach any of the 3,000 storage racks and deliver pallets within 37 seconds. Automated warehousing has been slow to gain acceptance in Britain, and there are few British companies which can put together a facility such as the one at Longbridge.

The project undoubtedly had a beneficial effect on this key area of handling, but it has turned out to be one of the last major unit-handling projects for Jenkins. The company is owned by Babcock and Wilcox, which also owns FATA, a European-wide group with extensive

experience in a similar field. Babcock and Wilcox has since decided to absorb Jenkins' unit-handling into FATA.

FATA has supplied the overhead conveyors in the new West Works—a contract worth £4m. Much of the interest on the Metro's production facilities has already centred on the extensive use of welding robots. The robot industry was in its infancy when the Metro project received the go-ahead, but since then, Unimation, which has supplied 22 robots, has decided to assemble robots in Britain. Two other robots have been supplied by ASEA of Sweden.

The machine tool requirements have been met mostly in the UK. Although they are mostly conventional machines, BL's orders have provided substantial work.

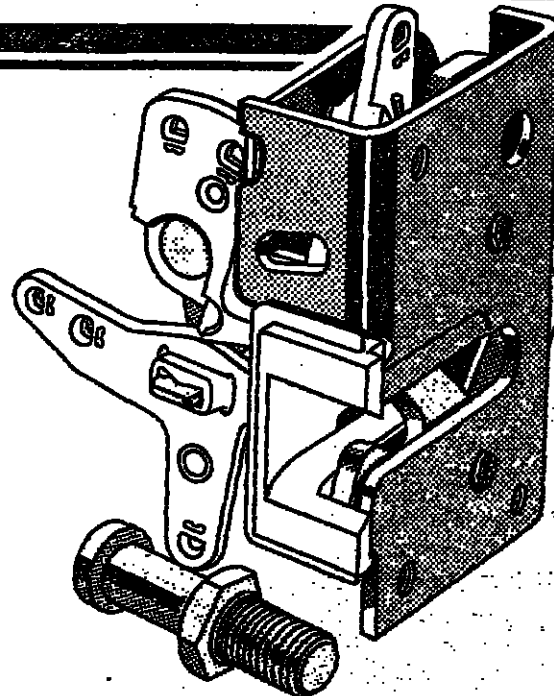
### Some respite

Re-equipment by the motor industry is vitally important to the machine tool industry. As in other areas of equipment, it has been the relatively low rate of investment by motor manufacturers in the UK over the past decade which has contributed to the decline in the size of the machine tool industry. The Metro project has provided at least some respite from an otherwise gloomy scene for this industry, and for other areas of process plant.

As well as the major pieces of equipment, the Metro project has provided work for many other areas of engineering, such as compressed air equipment, air handling equipment, and constructional steelwork. But for some parts of industry, the project came too late to prevent the contraction which lack of orders had enforced. There are export opportunities, of course, and many machine tool companies, for example, have benefited from the heavy investment programmes by the American motor industry. But they will all agree that there is no substitute for a healthy home market.

Hazel Duffy

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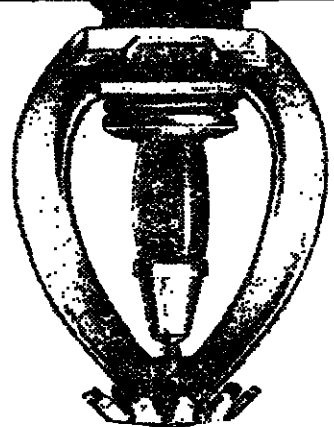
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## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

# Merger policy: a slight flexing of the muscles

BY A. H. HERMANN

AT LONG last the British Government seems to have made up its mind about merger policy. As John Nott, the Trade Secretary, indicated in his long-awaited statement on mergers earlier this month, it is to remain flexible, but more sceptical of mergers which reduce competition and do not contribute to the efficiency of management. The new policy also offers further protection to small companies against predatory bids and will facilitate demergers by changes in the tax regime.

But the tougher stance on mergers is not likely to be too tough. There may be a few more references to the Monopolies and Mergers Commission of conglomerate mergers—but not too many.

It has been held that the tax system has encouraged mergers and has contributed to the pace of integration. This has led to the doubling of the share of the 200 largest British companies in the country's manufacturing output during the past 30 years.

These companies now account for about half of manufacturing employment. Their investment funds are allocated internally, which is theoretically a bad thing since it shields weak projects from the scrutiny of the market. But this objection has little validity in the present British situation, where the market is at the mercy of fund managers who are no more imbued with a spirit of competition than a flock of sheep.

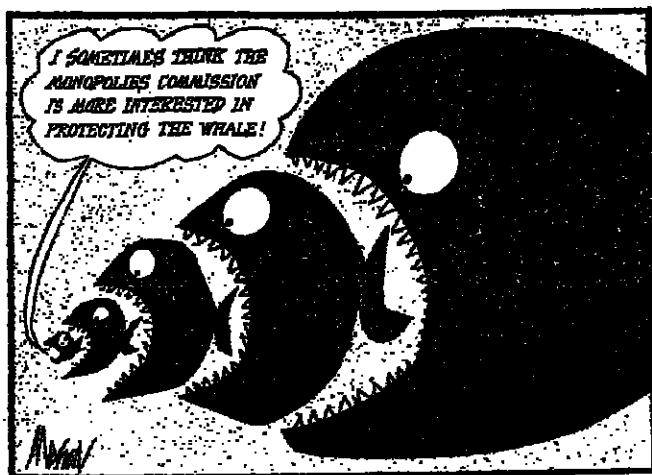
Indeed, there may be more competition between the subsidiaries of a large group than between two separate companies. But this internal competition is unlikely to promote the radical structural changes which the country's economy may need as a result of technological, social or international developments.

In view of the mainly financial motives which in Britain have brought about a concentration of industry which is probably greater than in any country of comparable size, it is not surprising that a spirit of adventure is absent from many mergers.

The Vickers and Rolls-Royce Motors engagement is typical of this. In vain does one look for a vision of new products or new markets, or the prospect of a project of specialised subsidiaries which would carry the combined expertise of parents into new fields. More prosaically, Rolls-Royce Motors needs the money which Vickers may soon receive in compensation for its nationalised aircraft and shipbuilding operations and Vickers needs to replace these interests.

The fiscal causes of concentration can probably only be removed by a reform of the tax system. But the new, more active merger policy of the Government, underlining the need for a better understanding of the scope of anti-trust measures—the direct control of concentrations invented in the U.S. and practised most notably there and in Germany.

British Governments have had



the power to stop mergers since 1965, and in the past 15 years over 50 merger references to the Monopolies and Mergers Commission (MMC) have resulted in the prevention of at least 30 significant mergers.

However, no clear merger policy has been evident. Neither government officials concerned with these matters nor captains of industry seemed to know what it was the Government wanted to do in this important area of economic management.

In the UK the law gives the merger the benefit of the doubt; it can be stopped only if proved to be "against the public interest," so that the Government has an almost completely free hand. The 1978 Hans Lissner consultative document on monopolies and merger policy (Cmd. 7188) proposed that merger policy should be shifted from "favourable" to "neutral." It proposed that the Government should explain the new policy and lay down non-statutory guidelines calling for a "critical" assessment of all mergers that would have a significant effect on competition or economic power. The Fair Trading Act 1973 was to be amended to oblige the MMC to determine "public interest" by balancing detriment of reduced competition in one hand, and the improvement in the international competitiveness of industry in the other.

The first two of these recommendations seem now to be accepted, though with a fine difference in emphasis which suggests that the Government is less critical of mergers than Lissner's Committee was.

But much has still to be done to translate the new philosophy into practice. The 1973 Act made companies with assets up to £500 million game for acquirers, by applying controls only from this level upwards. In March 1980 the Government raised this threshold of control to £15m.

On two occasions in 1979—in the cases of Thorn's bid for EMI and Calor Gas' bid for Glaxo—the Government rejected the recommendations of the Director General of Fair Trading that these merger proposals should be referred to the MMC. Only three industrial merger references were made last year,

GEC's bid for Alcatel, Merck's bid for Alginat (ALL), and FMC Corporation's bid for the same target company. In addition, there were two references of Press mergers which cannot be effected without Government approval—one was approved.

The three industrial merger references represent only little more than 1 per cent of the 1979 merger projects falling under the Fair Trading Act, and less than half a per cent of the total of 534 industrial and commercial mergers reported in that year. Moreover the attitude of the MMC has been consistently "soft."

It found that none of the three mergers referred to it in 1979, nor the Lorrho bid for SUITS referred to it earlier, were likely to operate against the public interest. It was unanimous in not finding against the proposed acquisition of SUITS by Lorrho, and the merger between Lorrho and the House of Fraser. In the Merck/AIL case the MMC recognised that the mergers could have "adverse consequences for AIL's employees in Scotland in certain circumstances," but thought they would make "maintenance of employment in Scotland more secure"—apparently contradictory observations.

Of particular interest in view of the controversial role of financial resources in conglomerate mergers, was the MMC's "in principle yes, in practice no" wisdom displayed in the GEC/Avery's report.

Theoretically, it would be possible, after the merger, for GEC to use its greater financial resources to subsidise the supply of Avery's goods and services, in order to reduce or eliminate the existing competition. In practice the Commission did not think this would be likely to happen, and GEC had told the Commission that it would have no such intention.

It would, of course, be wrong to conclude that merger control had no restraining effect whatsoever. One is told that many merger projects are dropped after informal consul-

tations with the Office of Fair Trading (OFT) and the Department of Trade. But the deterrent has been used with moderation, as is evident from the OFT Report for 1979: of the 257 companies acquired in 1979 and subject to control, 22 acquisitions achieved a market share of 25 per cent or more. Half the 257 mergers were of the horizontal type, 18 were vertical and a full 107 were conglomerate mergers—a proportion which underlines the importance of financial considerations in merger decisions.

This year the pace of references has quickened. On February 1 the MMC was asked to report on the £80m bid of Hiram Walker, a Canadian distillery, for Highland Distilleries. A month later followed the reference of a conglomerate merger project, the acquisition for £33m of Armitage Shanks, the sanitary-ware makers, by Blue Circle Cement. Finally, in June, the S. and W. Berisford takeover bid for the British Sugar Corporation was referred to the MMC.

John Knott indicated in his speech that it is not proposed to adopt the philosophy of U.S. Anti-trust controls which are burdened with a good deal of religious fervour. Concerned mainly with an enormous domestic market, this philosophy is egocentric and absolutist; anything which reduces competition in the U.S. domestic market is believed to be essentially evil.

Under the influence of the post-war U.S. occupation, Japan and Germany adopted the concepts of American anti-trust controls. Since then Japan has all but discarded the faith, but Germany continues to profess the undiluted creed and has recently tightened up the control of mergers and monopolies.

However, it must not be forgotten that German business has a great capacity for undercover "co-ordination" and restrictive practices. The hold which the German universal banks have on industry, the system of one union per industry, as well as generous government aid for industrial restructuring, combined with relatively high worker mobility, provide a unique background which softens the impact of the rigorous Federal Cartel Office.

Even with this reservation, important measures have been taken in Germany for the protection of small and medium-sized industries against larger predators.

The fourth revision of the German Competition Act adopted in February, 1980, reduced from DM 50m to DM 40m the turnover ceiling of enterprises which can be freely acquired by companies with sales of more than DM 1bn.

The revised statute also introduces limits to market domination which hit conglomerate and vertical merger projects particularly in areas where small and medium-sized industries are still important.

Other provisions are designed to stop existing oligopolies from getting stronger through mergers. In particular, it confirms the doctrine that the superior resources of the acquiring enterprise may undesirably increase the market power of the target company. The doctrine was formulated by the Federal Supreme Court when it banned the acquisition of Sachs by GKN.

While mergers satisfying the statutory requirements of size and market share may be prohibited in the UK if they are likely to operate against the public interest, in Germany such mergers must be prohibited if found to be anti-competitive. They may only be relieved by the Government on the grounds of overwhelming public interest.

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The German system is strict, legalistic but highly predictable, and provides effective protection to those industries composed of small and medium-sized enterprises against penetration of giant companies.

In comparison with both the U.S. and German models, the UK system of merger control—even given the new, stricter policy—appears weak, flexible and unpredictable. So why should it be any different?

This is not a question for competition experts. Competition must be considered as part of economic strategy and this, in its turn, must be shaped to satisfy social and political aims. For this reason the belief that anything which restricts competition is in itself absolutely evil has never been accepted in Britain.

A sacrifice of competition at home may increase competitiveness internationally. Not only accession to the EEC but also Britain's adherence to GATT since 1948 and the gradual worldwide reduction of tariffs, have changed and expanded the markets in which British industry operates.

While the need to compete internationally argues for large powerful groups, the need to avoid starving whole regions of both business activity and employment makes it imperative to ensure the survival of smaller enterprises. Their survival appears essential if the economy is to retain the flexibility to adapt to the rapid changes in markets dictated by technology.

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## Put a little organisation into your life

IT IS increasingly evident from the responses of small businessmen at conferences, seminars and other meetings that a major problem they still face is where to seek advice on a variety of questions concerning finance, exporting and a host of other matters.

All too often, it seems, they are unaware not only of the assistance they can get from their bank, accountant and other professional advisers, but also those organisations that exist to represent them, the chambers of commerce and the various federations and associations.

The Leicestershire Small Firms Centre is aiming particularly to plug the gap by the simple means of a guide, called "Which Voice?" to the major organisations. Though not entirely comprehensive, it embraces all the key institutes, associations and federations.

The organisations themselves have provided material on the services they offer and some have also highlighted examples of the way in which they operate to the benefit of small firms.

The Association of Independent Businesses, which claims to be the "voice of Britain's independents," and which

applies a financial yardstick rather than that of the number of employees in admitting companies to membership, does not miss the opportunity to take another of its regular swipes at business legislation.

The statute book, it suggests, is "a spaghetti junction of employment laws, company laws and rules and regulations on everything from exits to production statistics."

National Federation of Self Employed and Small Business tells how it sprang to the aid of two small businessmen in their battles with Customs and Excise over Value Added Tax—described by the federation as "certainly one of the major problems of the small man."

But the federation also points out that VAT is just one of more than 100 different issues with which it has concerned itself on behalf of its membership.

The Association of British Chambers of Commerce, in addition to explaining the services it provides, points out some of the problems that exist regarding the constitution of the various chambers. Some, it says, could more appropriately be described as "chambers of trade" as their membership is

predominantly retail. Legal protection has been sought for the name "chamber of commerce," as it has been with most of its European partners, "but so far to no avail."

The CBI's director for smaller firms reflects on how the involvement of big companies in such business-generating bodies as the London Enterprise Agency, Action Resource Centre, and the Small Industries Group, are not philanthropic gestures, but sound commercial practice.

"Large firms are only too aware of the growing interdependence of the modern economy," he says.

Though there are one or two examples of the frequent claim by individual small business organisations that they are much better equipped than any of the others to represent small firms, the guide generally shows how each has its own particular part to play.

The guide is available from the Leicestershire Small Firms Centre—which is a Leicester Polytechnic and Leicestershire County Council joint venture—at 8, St. Martins, Leicester LE1 5DD.

Nicholas Leslie

## BUSINESS PROBLEMS

### Offer priority

If holding company "A" goes into voluntary liquidation and sells its 90 per cent shareholding in company "B," who has preference in the purchase of the shares: the majority shareholder of holding company "A" who has only one share in company "B" or the majority shareholder of company "B" who owns the remainder of the shares in company "B?"

The answers to your questions depend on the terms of the Articles of Association of company B. The articles probably provide for shares to be offered

to other members of the company first, so the question would be whether they must be offered pro-rata. In the absence of express direction in that respect it is likely that the articles would be construed to give the right pro-rata, but we can only form a proper view after considering the full Articles of Association.

### Excise licence

A friend and I have recently set up a small limited company (a close company) whose principal business is to be the merchandising of wine, primarily but not exclusively

to shareholders in the company (who number about 40). Our solicitor seems unsure as to whether the particular nature of our business requires us to obtain any kind of licence. Could you please advise me?

Assuming that you are not offering credit terms (which might bring you within the Consumer Credit Act 1974), the only licence you might require is an excise licence (i.e. for sale by wholesale). You should enquire of the Commissioners for Customs and Excise.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

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## The right way to intervene

MOST INDUSTRIALISTS, even those struggling to keep their business alive in an extremely unfavourable economic climate, support the Government's general objectives, especially the over-riding determination to bring inflation down. What has upset them is the apparent indifference on the part of Ministers to the practical problems which industry is facing and the simplistic solutions which are sometimes suggested for overcoming them. Urging manufacturers to move "up-market" may be appropriate in certain cases, but there is a limit to the speed with which industry can adjust. It is equally misleading to blame all factory closures on high wage demands or restrictive labour practices or both. What industry wants is not a U-turn, but some tangible evidence of sympathy and support in coping with the changes that are made necessary by the combined effects of the Government's policies and the economic recession.

### Public money

The Prime Minister's speech in the House of Commons yesterday went some way towards filling this gap. Mrs. Thatcher, while in no way budging from her established principles on the money supply, public spending and the exchange rate, put welcome emphasis on the Government's duty to facilitate change and alleviate its effects. It was surprising that she should choose to illustrate this concern by announcing a £6m grant to Dunlop for the modernisation and rationalisation of its tyre factories in Birmingham and the North East. Not only is this aid being made available under the 1972 Industry Act—a measure which marked the Heath Government's return to industrial intervention—but the tyre industry, suffering from severe world overcapacity, is not one of the growth sectors which usually figure in Ministerial speeches. While the grant marks no change in policy, the Prime Minister's decision to mention it is presumably designed to show the Government's willingness to use public money to help companies make themselves more competitive.

### South Wales

At the other end of the technological spectrum, the Prime Minister used the occasion of the no-confidence debate to announce the long-awaited decision on Immos. The NEB-

backed micro-electronics company is to receive the second tranche of £25m on the basis that the production plant will be situated in South Wales rather than in Bristol as the company had preferred. It was apparently the argument over location, not the possibility of private sector involvement, which had delayed the decision for so long. There are continuing doubts, as we have argued before, about the wisdom of committing taxpayers' funds to as speculative a venture as Immos; the Government should continue to seek private sector participation. But whatever the merits and demerits of the project, Ministers are right to be concerned about the high level of unemployment in South Wales and to use their best efforts to direct new jobs to the area.

It is in South Wales that many of the job losses arising from the contraction of British Steel Corporation are occurring. While the job losses will continue, there are signs that the Government is taking a more flexible and more pragmatic view about the future of the steel industry. Ministers are now waiting for recommendations from the new chairman of BSC, Mr. Ian MacGregor, but there is no doubt that further support from the taxpayer will be necessary, probably for several years, if the UK is to retain a substantial and competitive basic steel-making capacity. The Government cannot avoid taking a view about these matters; it cannot avoid intervening to help industry adjust to change.

### Market forces

It is unfortunate that in distinguishing their policies from those of the Labour Government Ministers have created a situation in which every piece of micro-economic intervention is seized on by supporters and critics as a possible U-turn. The fact is, as Mrs. Thatcher implied yesterday, that Governments can and should intervene in a variety of ways to tackle specific weaknesses which market forces on their own cannot be relied upon to remove, whether it is youth unemployment, regional decline or structural problems in basic industries. The difficult task, especially at a time of rising unemployment, is to distinguish between easing the process of change and slowing it down or preventing it; the pressures on the Government to do the latter are certain to grow over the next few months.

## Muddling on in Italy

THE ITALIAN cliff-hanger goes on. Sig. Francesco Cossiga, the Prime Minister, has easily defeated a Communist attempt to impeach him in the Parliament. But it would be idle to pretend that the country's political and economic problems are closer to solution. All that can be said is that the vote, taken on Sunday, has given Sig. Cossiga's coalition the opportunity to try to wrap up the economic package designed to curtail consumption and to stimulate investment.

The most radical proposal in that package was to have been a modification of the so-called scala mobile which amounts to indexing wages. Union leaders had already agreed to it when the Communists saved the scala mobile with demonstrations of shop-floor strength. As an indirect result another key proposal was also dropped. It was for a 0.5 per cent levy on workers' wages to be paid into a fund to help the chronically poor south and ailing industrial enterprises.

### Tax evasion

Yet it would be wrong to conclude that nothing is left of the Government proposals. Higher petrol taxes and a tighter administration of value added tax remain. More important, perhaps, there are signs that the Government is in earnest about fighting tax evasion. For this year, Sig. Filippo Maria Pandolfi, the Treasury Minister, expects to increase revenue by £2,500bn (about £1.2bn) by this means. He can count on Communist support for his objective. What Italians at large will think about it, and especially that great number who are active in the flourishing Black Economy, is quite another question.

The need for strong economic measures is evident in a country which has swung from a £2.1bn current account surplus in 1979 to a probable deficit of equal size this year, and where inflation is rampant. Until recently the economy bore all the signs of overheating, though a slow-down, presenting problems of its own, is in prospect for the

autumn and may already have begun. Given the international climate and previous experience only an optimist would expect that slowdown to end inflation.

Success will require above all staying power, and few qualities are harder to display in the welter of conflicting interests, of factions and sub-factions which make up Italian public life. Not without malice an Italian journalist has likened Sig. Cossiga's task to that of a sprinter entered for a long distance race.

What Sig. Cossiga's victory on the impeachment issue has shown is that for the moment the coalition partners, by and large, intend to hang together; there were relatively few desertions from the government camp of Christian Democrats, Socialists, and Republicans. But the Communists remain determined to bring down that coalition. Their strength in Parliament is insufficient though they are the second largest party. But as the successful agitation in support of the scala mobile has shown, they have other means of influencing events.

That is not to say that Sig. Enrico Berlinguer, the Communist leader, is retreating from the policy which once made him a main exponent of Euro-Communism. His party is not revolutionary in the usual sense of that word: it stoutly supports the concept of law and order in a terrorist-ridden country.

Sig. Berlinguer is conducting a political battle for power and his main target is the Socialist Party which has been tacking to the right under its leader, Sig. Bettino Craxi. But a strong Socialist minority would prefer an arrangement with the Communists, and even some Christian Democrats believe that it is useless to try to govern against Sig. Berlinguer.

Sig. Craxi's line paid off when the Socialists made a good showing in the regional elections this spring. In the autumn brings mass dismissals in industry, things might look different. The indications, then, are that Italy will have to go on muddling through—an art which it has brought to high perfection.

# Jimmy Carter's rudderless policy on Iran

BY ANDREW WHITLEY IN WASHINGTON



Released hostage Richard Queen at Zurich airport on his way home to America

ACCORDING to a story going the rounds among disaffected Carter administration officials it was a defector from the Soviet KGB who not so long ago put his finger with disconcerting accuracy on the nub of the issue. "Why did you let Iran drift out of your grasp?" He is reported to have asked, "after all, it was in your sphere of influence. All we did in Afghanistan was to reassert control over ours."

The KGB man may indeed never have existed, but the brutal frankness of the tale appeals to those who feel that almost everything that has happened in Iran in the past two years, since the anti-Shah movement began to gather speed and strength, is due ultimately to President Jimmy Carter's lack of decisiveness.

The voices of discontent are muffled. It does not do to express such anti-patriotic sentiments in public when there are still 52 Americans held hostage in Iran by "a bunch of Islamic nut-cases," as they are widely perceived. One of the more extreme frustrations being bottled up as a result of the Iran crisis is caused by the unspoken but in force on the kind of full-blooded examination of the entanglements of government policy to which Americans have grown accustomed.

President Carter is unlikely to lose the November election just because of, or largely because of, Iran. The lack of confidence in his leadership and his economic policies goes far deeper than that. Thus, his strategists are said to believe that the best course of action is to spin this most knotty and baffling issue out until after the election: by moving slowly and cautiously not taking any significant new initiatives and, meanwhile, reassuring the Iranians that the U.S. means them no harm.

His aides are well aware that that cosy scenario could easily be knocked off course by any of a range of possible developments within Iran, from the trial and sentencing of a number of the hostages as spies, to the sudden death of the country's 80-year-old leader and revolutionary mentor, Ayatollah Khomeini.

Nevertheless, the aides are reasonably confident about their ability to keep Iran out of the public limelight in the run-up to the polling date, though there will undoubtedly be enormous temptation for someone in the Reagan or Anderson camp to point to the fact that November 4 will mark the exact first anniversary of the capture of the U.S. embassy in Tehran.

To date Mr. Ronald Reagan, the Republican candidate, has trodden carefully in the minefield of emotion represented by the issue. In his acceptance speech to the Republican convention earlier this month only the briefest mention was made of the hostages' continued detention. It was a subtle reminder to the American people that all the President's

efforts had failed—but it was not accompanied by any alternative proposals of his own.

No pact has been reached by the contenders for office. It is not needed. The much repeated black joke: "What is flat and glows in the dark"—referring to Tehran the day after Mr. Reagan has been elected and gone for his nuclear gun—is way off the mark.

There is instead every chance that the Republican "hawks," once in office, will realise that the combined goals of resolving the hostage issue ("dead or alive"), reasserting American political and military resolve and preventing what remains a highly strategic part of the globe from falling into Soviet or pro-Soviet hands cannot be served by resorting to force or dodging the demands at the heart of the Iranians' case.

There is little evidence these have been seriously examined by the Carter Administration in the nine months the crisis has dragged on so far, a comment on its inability to come to terms with the reason d'être of the Iranian revolution. The main stumbling block is summed up in the frequently heard and fiercely expressed refusal of officials to contemplate "apolo-

gising for our past support of the Shah."

Up to now nearly all the debate within the Administration on how to handle Iran has concentrated on tactics, not on matters of substance, according to one State Department official. Nor does any change of approach appear to be in the wind, possibly because of the way in which all the main participants—the CIA, the National Security Council, the Pentagon, and the State Department—are bound by the same refusal to rake over old coals until the hostages are out.

### Debate has been on tactics, not matters of substance

It is recognised nevertheless that the death of the Shah removes some of the psychological barriers in the way of a more realistic appraisal of the possibilities open to the U.S. in dealing with the immediate goal of getting the hostages safely out of Iran. It also pro-

vides an opportunity to come to grips with the question of the Shah's fortune—the return of the "looted billions of dollars," which many of Iran's leaders have all along considered just as important as the handing back of the former monarch.

"Perhaps the best gesture we could make to Khomeini would be for Carter to announce that he was not running for re-election," one official said ruefully, aware that a central desire of the militants who took the hostages and have now become the political establishment in Iran is to bring down the American President, and that there is no chance of the President obliging voluntarily.

In public the present U.S. Government states that the resolution of the hostage crisis "as quickly, as peacefully, and as stably as possible," is its overriding concern. The corollary is that Iran's geopolitical importance to the U.S. and the large question of Washington's attitude towards the Khomeini regime have been subordinated to the first consideration.

The reality is, inevitably, both more complex and less praiseworthy. It reflects the widespread feeling of helplessness to guide, or even monitor, events

in Iran—the fundamental distaste felt for the activities of the mullahs, the Moslem clerics—and the judgment that, for the moment at least, the hostage crisis has faded somewhat in the minds of the American public.

It is generally agreed that the abortive rescue attempt in April helped to disperse much of the public head of steam that had built up around President Carter towards Iran. The breathing space has been used to put the fate of the hostages on the back-burner, waiting on events in Iran.

The unexpected release this month of one hostage, Richard Queen, came as a pleasant surprise, throwing up far more questions than it answered (as well as underlining the opaqueness of the decision-making process in Iran to foreign, and specifically American, eyes. But as gratifying to the U.S. administration was the relatively low-key, measured response to his release from the American media and public.

In fact, far from distancing itself from the unwinding of the revolution in Iran, as its public posture would suggest, the U.S. is taking a very close interest in the way the Islamic Republic appears to be coming to pieces. To what extent Washington is actively pursuing courses of action based on the premise that the ayatollahs will not last is a highly sensitive subject which policy-makers will not be drawn. But the alternatives are certainly being considered, and it would seem that contingency plans are at least in the early stages of preparation.

Contacts have been established with the two main exile groups in opposition to Khomeini, those led by former premier Shapour Bakhtiar and by one-time chief martial law administrator under the Shah, General Gholam Oveissi. This does not mean that these groups have been recognised or that help has been extended directly to them. On the other hand they would be considered much more credible and therefore deserving more serious attention if, somehow, the two rivals were to join forces. That message has already been put across.

To the embarrassment of the administration one aspect of its less honourable intentions towards Iran which has become public is the clandestine radio station broadcasting general anti-Khomeini propaganda from Cairo. Tacitly confirming for the first time an American hand in its establishment some two months ago, a senior official commented, "They (the Iranian authorities) haven't come to us yet about it. If they do, we could do something about it."

One possible interpretation of the superficial contradiction between the patently destabilising purpose of the radio station and the calm, relaxed attitude otherwise being taken towards the hostage issue is that the U.S. is trying to add cards to what it sees as its otherwise weak hand when the chips are

down. Its strongest card, the \$7bn-worth of frozen Iranian Government assets in U.S. banks, is similarly an artificially created one.

There would be strong resistance from Congress to the playing of this last card until the penultimate stage of a carefully worked-out deal leading to the hostages' release. A premature move by the Administration would jeopardise the bipartisan agreement not to challenge publicly President Carter's handling of Iran.

The consensus would also be severely strained, and possibly broken, by the one development everyone in Washington fears: a trial in Tehran, in which the American hostages would, willy nilly, be involved. That prospect came nearest following a statement on Monday that the Iranian Parliament could begin considering the issue next week.

### An otherwise weak hand when the chips are down

Most U.S. officials recognise that a trial is the most likely outcome of the Iranian Parliament's deliberations given that the U.S. itself has few concessions to offer. Unhappily they also see that it will put the President very much on the spot, especially if such a trial were still going on or had just delivered an unfavourable verdict as the election date nears.

"Do not underestimate the strength of Carter's moral stance on the issue," a top State Department man warned yesterday. The American President has repeatedly said that a trial would bring "severe consequences." If he is, in addition, trailing Ronald Reagan badly in the opinion polls, the pressure on him to undertake what many would consider "something foolish" will be enormous.

In spite of the military adventure of last April, Jimmy Carter would much prefer a peaceful solution and he would almost certainly wait for the outcome of any trial before taking a decision that the State Department, at least, would consider highly damaging for almost every other aspect of its foreign policy.

On present indications that decision would probably be the imposition of the naval blockade of Iran's Persian Gulf ports threatened earlier in the year. Few expect it to lead to the early release of the hostages.

It may well hasten the process of the internal disintegration of Iran, and the U.S. is already looking beyond to the post-Khomeini era. Not that it has any prepared strategy for the chaos everyone expects as competing groups attempt to grab power. The Administration's policy is a rudderless ship on an uncharted sea.

## MEN AND MATTERS

### The wrong goodbye?

Does Lord Keith have a double life? Or just a double? The question is prompted by a rather baffling disagreement which arose between outgoing Hill Samuel chairman and Hoare, former elder statesman Lord Warrington, at the annual meeting of the merchant bank.

As Lord Keith steered the meeting to a close, Lord Warrington rose to move a vote of thanks and slip in a plug for his firm. There was, he said, "no-one whose light shone more consistently and forcefully in the last 35 years." But he confessed to puzzlement that, in the résumé of Lord Keith's career presented in the HS report and accounts by successor, Sir Robert Clark, "his short stay with my firm has been omitted."

A bemused smile edged across Lord Keith's face. In the interests of accuracy, he said, "it was not me who was in Hoares. I have never been a stockbroker."

There must, I said to Lord Warrington after the meeting, be some mistake here. "No, no," he insisted, "he was in my office for three weeks on an attachment." Armed with this reassurance, I trotted back to Lord Keith. Lord Warrington, I said, stands by his story. "I have done many things," replied Lord Keith, "but I was never a stockbroker, and I never spent a day at Hoares."

Having quizzed both protagonists, I remain uncharacteristically stumped. Is there a Lord Keith impersonator? And if so, where is he now?

### Bunny du Cann

"I am one of the rabbits," exclaimed Edward du Cann yesterday in his capacity as chairman of the all-party Treasury and Civil Service Committee of the Commons. Happily, du Cann was not auditioning for a part in the next Richard Adams book, nor seeking a job from Victor



### Up the poll

Never a dull moment at the Milford Docks Company, where chairman Charles Smith has appointed Guinness Mahon banker Peter Jennings to the Board as dissident shareholders marshal their forces for tomorrow's poll on Board changes. The poll follows the annual general meeting earlier this month, at which a beghful of lawyers disputed the arcane legal precedents which should govern the procedure of the company—which was incorporated by Act of Parliament in 1874.

Smith wants directors David Blick and Lt-Col. Thomas Wilkinson re-elected. The members of the hoarding-party, Turkish businessman Falk Ezen, stockbroker John Knowles and Lloyd's underwriter James Thomson-Moore—seek to supplant them.

Blick, who is associated with the U.S. Greyhound Guaranty group, has been Smith's financial prop in developing plans for major refurbishment of the docks and associated property. The appointment of Jennings reflects the possibility that "if the poll goes against us, we would lose the advice we have been getting from Mr. Blick," the Milford chairman tells me.

"So although we wouldn't put in an odds-and-sods director from just anybody, we do want advice to continue."

Smith is giving no hostages to fortune about tomorrow's poll, because he expects the dissidents to show their strength at the meeting rather than through advance proxy votes. Only seven months ago, Smith comfortably fended off a similar boardroom party led by ex-Slater Walker businessman Richard Eldridge. This time, though, he says, "it could be a little closer."

### Together again

BNOC's chairman Philip Shelbourne yesterday went some way towards replacing the multifarious talents lost to his Board when financial managing director Alastair Morton marched out in a fury at the end of May. To take charge of finance and corporate planning he has tempted away 36-year-old Roy Dantzie, currently a director in the corporate finance department of Samuel Montagu, Shelbourne's former fief.

Curiously, Dantzie first came into contact with his new chairman in the early 1970s when he joined the Drayton investment group, later merged with Montagu, and when Morton was embroiled in one of his first clashes with Shelbourne, then at the head of Drayton.

But while Morton moved on to join Lord Kearton at BNOC, the young and less tempestuous Dantzie stayed behind, building his career and reputation. Although he has had no experience in an industrial company, he has already had a chance to study the workings of the state oil corporation and the Govern-

ment mind through his involvement as an ideas man for the plans to float off public assets.

And he could be said to have won his operational spurs in 1978, when, he tells me, he was involved in the controversial deal through which the Post Office pension fund bought the Investment Trust Corporation from Barclays Bank. "That was unique," he adds cautiously, "I don't think anyone would dare do that again."

### Here today . . .

Sleepies reckoning that the fairy-tale rescue of Irish glass-maker Tyrone Crystal by local boy made good John Graham was too good to be true have been proved right. Parent company the Tyrone Investment Corporation for Industrial Development has revealed that Graham has failed to complete a contract for the purchase of the shares of Tyrone Crystal. Graham left Northern Ireland 29 years ago at the age of 15 to make his fortune in Australia. Returning to the province recently to visit his mother, he read of the financially-troubled Tyrone Glass, and out of the blue offered to save it and its 150 workers by wiping out its £1.2m debts and investing a further £450,000 to increase capacity.

With Graham unavailable for comment and apparently out of Northern Ireland, the faces around Tyrone are long and more than a little mystified, and legal advisers are being consulted.

### Clean break

Complaining at Liverpool Street about the late arrival of his train, a colleague was informed: "We've been having a lot of failures with these engines lately. It's all the fault of the new washing plant at Clacton . . . it was the dirt holding them together."

Observer

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## View from Middle Russia

THE MORNING sunlight in Shadrinsk revealed an old Russian merchant town, warped leaning log houses, warped from centuries of rain and snow, lurched over dusty streets and five-storey housing blocks stood in the background with iron balconies and laundry hanging out to dry.

It had taken 39 hours to reach the Ural mountains town of Shadrinsk, in the Trans-Siberian Express and on the way, we passed timeless wooden villages where peasant women bent over dirt plots in the heat of the sun.

As we approached the outskirts of the town, trucks loaded with chopped wood waited at a crossing and the grassy Russian plain was broken by a pine grove which gave way to a scene of peaceful decrepitude where unused railway sidings were dotted with mari-golds and grain elevators rusted in the sun.

We had been prompted to make the trip by the massive Soviet propaganda campaign following the invasion of Afghanistan. In Moscow, educated people are sceptical of their Government but I thought this was probably less true in the towns and villages, where out of thousands of miles of provincial Russia, the "dead places" where most Soviet citizens live.

During the train journey to Shadrinsk, a factory town of 60,000 in the centre of the USSR, which was picked at random, a colleague and I got some idea of what lay ahead. There were many soldiers on the train, en route to new postings, as well as a reasonable cross-section of the travellers one would meet in any second-class compartment on the busy Trans-Siberian Express.

Almost to a man, people we spoke to condemned the U.S.-led boycott of the Moscow Olympics and said that they supported the Soviet invasion of Afghanistan.

"We gave the Afghans help, just as the Americans gave us help in the Second World War," said a retired schoolteacher from Kurgan. "They published the appeal for help in our newspapers," I asked him if he ever considered the possibility that what he read in the Soviet newspapers might not be true. "How could it not be true?" he replied.

In Shadrinsk, I unpacked my things at the Hotel Ural and walked through the shadeless central square, stopping to talk

## Soviet intervention an example of 'typical Russian generosity'

to some young girls who were sitting on a bench near the war memorial. Across the road at the Motherland Cinema a new film was playing called, "From Your Loved One, Don't Be Parted."

In the next three days, I spoke to people in cafes, in the barren farmers' market, in the restaurant of our hotel, and in the lush, mosquito-ridden city gardens. The overwhelming impression I took away was that there was little realism in the idea of President Jimmy Carter that an Olympic boycott would inform the Soviet people about Western anger over Afghanistan. In remote cities like Shadrinsk which are cut off from outside information, the conditions for informing people do not exist. Soviet propaganda is the reality.

One night in the hotel restaurant, we sat down at a table with some amateur musicians who worked at the Shadrinsk Auto Parts factory, and began talking with them about world events. They said they were disgusted by the Olympic boycott and, echoing the phrase constantly repeated in the

Soviet newspapers, said it was wrong to mix politics with sport. "We all know about Afghanistan," said Volodya, one of the men, "but I put a fence around this question. Sport is one thing, politics is something else."

At a table cluttered with empty vodka bottles and half-eaten meat and potato salad, Igor, another of the men, explained the Soviet intervention in Afghanistan as an example of "typical Russian generosity."

The lack of access to uncontrolled information in Shadrinsk was complemented by a shortage of decent books. The only bookshop was full of technical books and bound volumes of Lenin's works. There were only two counters where genuine literature was being offered, a counter where the works of Chekhov were played at a prize in a lottery and an exchange desk where a few works of modern literature were being offered in return for specific other books listed in a file of index cards.

One night at Shadrinsk's floodlit dancing ring in the city gardens we chatted with a pretty 18-year-old shopgirl who asked her if the fact that she wore Western jeans and liked Western music meant she didn't like the Soviet Union. "No," she said emphatically. "I love the Soviet Union." During our stay, we had several meetings with local officials but the result of the meetings was to give the impression that political discussion is frowned on in Shadrinsk when it departs from the verbatim repetition of official propaganda. With political issues and anything that bears on them eliminated from the conversation, our talks with local officials were taken up with their odd recitals of meaningless facts.

In a 90-minute meeting with leaders of the Komsomol, the

Young Communists' Organisation, we learned that Shadrinsk has four cinemas, 18 secondary schools, six hospitals, 75 retail establishments, 4,000 private cars, 5,000 motorcycles and every year, no fewer than 800 weddings. This information was not apparently prepared in order to waste our time but simply defined the area of independent intellectual competence permitted to local officials.

The impression of faith in the picture of the outside world given by Soviet propaganda and the Soviet Press would have been all but total in Shadrinsk, had it not been for one fleeting, discordant incident which took place while I was out for a quiet stroll.

I turned off on a side street and came upon the site of an old church which was surrounded by broken, weathered scaffolding except for the red belltower and the golden cupola and cross. In a yard beside the church, an old man was filling pails with sand and I asked him if restoration work was continuing. He laughed disinterestedly without looking at me and said, "The State has more important objectives than restoring churches."

The man continued his work, apparently unperturbed by being approached by a foreigner. "First they destroyed the churches now they're restoring them," he said. "I remember how they destroyed this one. They blew holes in the walls and burned the icons. Then they took out all the silver and gold. They said they needed the metal for industry."

On our last day in town, we walked through the city gardens where mothers were pushing baby strollers and old men played chess on large outdoor boards. The intense sunlight filtering through the trees threw deep shadows on the sidewalks and the branches and leaves formed thick canopies

over the winding dirt paths. We met a worker named Oleg from the telephone equipment factory and sat with him on a bench in an old unpainted gazebo.

He said that Shadrinsk was a patriotic city which had supported the 1968 invasion of Czechoslovakia out of affection for the Czechs and the 1956 invasion of Hungary out of a desire to help the Hungarians. "Tell Carter that the Russians don't want to fight," he said. "We know how to fight but we don't want to fight."

Listening to Oleg, who was obvious in his interest in the outside world and his sincerity, it was easy to imagine the frightening potential of a dedicated army, with recruits drawn from places like Shadrinsk, marching into war full of confidence in the righteousness of their cause but without the faintest actual idea what they were fighting for.

"I know we went into Afghanistan for purely humanitarian reasons, in order to help," he said. "We're Russians. If I had my last loaf of bread and you needed it, I'd cut it in half. I don't care who you are, whether you're English, American, Vietnamese, Israeli, Cambodia, where how many million people died. It made you

## 'First they destroyed the churches, now they're restoring them'

hair stand on end. We helped Vietnam. We are ready to help any country."

I walked down some potholed side streets the following afternoon past a derelict church and emerged on the river bank to a scene of worldlessness and peace. Under feathered clouds in a blue sky, Wizenod old women watched from the steps



of wooden houses as two policemen warned a young boy not to cut the branch off a tree.

There seemed little reason for life in Shadrinsk to be affected by events in a place as remote as Afghanistan and in the local newspapers, which were on sale in kiosks on the main street, it was easy to see how the conflict could have escaped people's notice. In the twice-weekly Shadrinsk Rabochy and Zauralskaya Pravda, the daily regional paper, most of the news concerned the grain harvest or truancy among workers in the local factories. In the evenings, we could pick up the Russian language service of the BBC and the Voice of America from my hotel room but on an issue like Afghanistan, the information broadcast by the BBC directly contradicts the information conveyed by the central Soviet television and Press. It may therefore indirectly reinforce official propaganda because to trust Western broadcasts, the resi-

dent of a provincial Russian city must make the unsettling assumption that much of what he is told about Afghanistan in the Soviet Press is a lie. One afternoon we were joined at our table in a cafe near the central square by a muscular construction worker who spoke to us about the world situation and became increasingly vehement as the conversation proceeded.

"The Americans are cunning people," he said. "In how many countries do they have their bases? How many bases surround the whole Soviet Union? The Russians were a peace-loving people. The Olympic boycott was an action against peace. He said that everyone supported the policy in Afghanistan and he added that no one had sent him over to talk to us, a possibility which crossed my mind while he was talking. That night we met Oleg and a friend of his at the hotel restaurant. Oleg insisted on buying us several rounds of drinks

and reminiscing about instances of East-West friendship, including the meeting of Allied and Russian forces on the Elbe. He recited a poem by Yevushenko. "Do the Russians want war?" After delivering the full poem, he raised his voice to recite the last lines: "Russians don't want war. Russians don't want war. Russians don't want war." Oleg's friend, Vitya, offered a few final thoughts at our table on the situation in Afghanistan. I had asked him whether he was troubled by Soviet Press claims that the Government of Afghanistan invited Soviet forces to help and the head of that government, Hafizullah Amin was immediately killed. "There could have been two governments, one popular and the other anti-popular," Vitya said reflectively. "We supported the popular government of Babrak Karmal. We don't have all the information. We can't see the peaks of policy. We see what is known to us but we know enough to take a view."

## Letters to the Editor

## Vision of high living

From Mr. C. Jameson

Sir,—What a marvellous vision of the future Samuel Brittan portrays. Once again Britain becomes a nation of rentiers. Where before we lived off the Empire, now we shall live off our foreign investments from money earned from North Sea oil. Even high living will become not a vice, but a virtue: it is only by spending heavily on the pleasures of life that we can create enough jobs in the service sector to mop up the unemployment created by the de-industrialisation-is-good-for-you policy that Mr. Brittan commends.

Should Mr. Brittan (July 24) be taken seriously? It is impossible to say, at least not on the basis of the information so far presented. There are two quite distinct "visions" in his reasoning that call his scenario into doubt. The one is that de-industrialisation will proceed at no more than the same pace as the pre-1976 period on which his estimates are based. The assumption is questionable—the pace of de-industrialisation is now quickening and could quicken even faster if, as is not unlikely, the British motor car industry folds up under foreign pressure.

A second assumption is even more dangerous still: that the service sector can expand quickly enough to make up for the lost jobs. How many restaurants and hairdressers does Mr. Brittan think that, say, a declining north-east can afford?

I am not saying that Mr. Brittan is wrong. No one should be asked to disprove someone else's belief in pink elephants. I am only saying that, on the evidence given, there is no case to answer; his assumptions are unproved.

Conrad Jameson, 103, Old Brompton Road, SW7.

## North Sea oil revenues

From Mr. D. Dale

Sir,—Some people apparently believe that Britain should deliberately run down its manufacturing industry because North Sea oil revenues are calculated by some economists to be enormous during the next 25 years; so great in fact that we can invest enough abroad in that period to live off for ever. This is naivety to the point of madness. We have had foreign investments "nationalised" by various countries before and this would no doubt happen again. We should be placing our future in the hands of others—a practice we have indulged in to excess already. The only safe basis for our future capacity to buy necessary imports is a continuing, sound manufacturing industry—varying no doubt over time in its product range.

If we have a temporary embarrasing inflow of wealth from oil, we should run a surplus on our balance of payments, pay off foreign debts, invest first and foremost in schemes of land reclamation, "clean" energy generation and measures to ensure that we have a sound infrastructure and a healthy and efficient manufacturing industry when the oil runs out. If necessary we should slow

down the rate of oil extraction to spread the "benefits" over a longer period.

To claim as the Chancellor does, that the present high value of the pound is fixed by some all-wise world market and is outside his influence is quite misleading and he knows it. The Tories, whom I supported over many years, appear to have lost their senses. Their last Government indulged in a disastrous "dash for growth" and now we have a dash for death.

D. H. Dale, Birch Crest, Hilderstone Road, Meir Heath, Stoke-on-Trent.

## Unemployment remedies

From the Director, Youthaid

Sir,—Samuel Brittan's review of "Unemployment: causes and remedies" (July 24) was misleading in a number of important respects, but his conclusion was ill-informed, destructive and dangerous. He fully accepted that temporary programmes were necessary to minimise the effects of high unemployment but argued that it is extremely doubtful whether they are best managed by the Manpower Services Commission because it has to pay heed to the Confederation of British Industry and TUC.

It is clear from his misdescription of the various schemes run by the MSC that he has insufficient information to assess their effectiveness. Those of us who know a good deal about special measures for the unemployed are convinced that the youth opportunities programme (YOP) and the special temporary employment programme (STEP) are excellent instruments for assisting the two groups who are suffering most from high unemployment—school leavers and the long term unemployed. What is needed is an enlargement and improvement of both programmes. It would be totally wasteful and destructive to tear them down and start to build again, thus destroying all the experience and expertise gained over the last two years.

The Government has undertaken to enlarge and improve the youth opportunities programme, which already provides 350,000 training and work experience places for unemployed school leavers. This is exactly what is needed. It is clearly right that we should devote resources to education and work experience programmes for the young unemployed, which will make them more flexible and capable workers in the future. The Government refuses, however, to do anything at all for the long term unemployed. There are already 350,000 people who have been without a job for 12 months and there will soon be 500,000. The STEP programme provides only 12,000 places. Long term unemployment affects all age groups but his older workers suffer severely. This group suffers extreme poverty, personal demoralisation and loss of confidence. They are suffering badly as individuals and their future employability is being damaged. What is needed is an increase in the resources made available to the MSC in order to enlarge the STEP pro-

gramme. What is not needed is new programmes which will have to begin by re-inventing the wheel. Clare Short, Youthaid, Trevel House, 3, Stamford Street SE1.

## The verdict on comprehensives

From Jane Steedman

Sir,—I am grateful to your leader write ("No verdict on comprehensives," July 21) for reminding readers of the value of objectivity, concerning our report on secondary schooling of the children in the national child development study. In the interests of objectivity, therefore, I would like to make the following points. Our report might seem "inconclusive" to any one wanting an answer to the question "are comprehensives better or worse than the old selective system?" A simple overall answer was ruled out by the complexity of the issues and by our evidence: a more realistic set of conclusions was possible. May I clarify two of those, lest your readers believe your writer's opinion that "mediocre scholars did less well in comprehensives"?

The finding from which this observation might have arisen concerns only that fifth of the sample who at 11 years scored in the middle group of five on tests of attainment. "Middle" children thus defined did not "constitute the majority," despite your leader's view. The small number (one-tenth of the "mediocre," or 2 per cent of the whole sample) who for one reason or another went to a grammar school had progressed further by 16 than the equivalent children in secondary moderns and comprehensives. As far as the remaining 90 per cent of middle range children is concerned, comprehensive pupils did not "do less well" than secondary modern pupils. That they did no better than others may be a cause for concern about education in general, but less for surprise about comprehensives, since comprehensive secondary moderns in their intakes of 11-year-olds.

Of those who, by the lights of tests at 11, might have gone to grammar schools, it was clearly possible to say that pupils in comprehensives had done as well by 16, as measured by tests of mathematics and reading, as their equivalents who did go to grammar schools. These comprehensive pupils did better than pupils who, despite high attainment at 11, had gone to secondary moderns. This is the picture for the top fifth of the whole sample at 11—academically able children, but not simply the unusually "gifted" subjects of the HMI's report with which your writer attempts an unjustified contrast. Jane Steedman, (Research Officer), National Children's Bureau, 8, Wakley Street, EC1.

## Providing for education

From Mr. M. Bruce

Sir,—Your editorial, "No verdict on comprehensives" July 21, rightly questions the conclusions which Mr. Neil

Kinnock draws from the National Children's Bureau report on secondary education; but the editorial itself is equally open to question.

Your comparison of the satisfaction of parents with children in comprehensive schools and those with children in selective schools would be fair if comprehensive and selective schools were alternatives. This is not the case. The alternative to comprehensive schools is, of course, a mix of selective and non-selective schools with a ratio of about 1:4 in pupil numbers.

Many would agree that grammar schools can provide an excellent education for the minority who attend them. The real question is how well grammar and secondary modern schools together can provide for the nation's children and how this provision compares with that of the comprehensives. To this question your figures give no answer.

(Head of the School of Education and Teaching Studies, Thames Polytechnic, Wellington Street, SE1.

## Waves of energy

From Mr. D. Ross

Sir,—Your interesting survey of Japan's research into energy sources (July 21) omits to mention one activity in which the Japanese have an undisputed lead over all other countries: wave energy. They have a 500-ton ship, the Raimel, producing electricity from waves and officially rated as a two megawatt power station. It is plugged into the grid and providing energy from a benign, renewable source.

On deck are 11 generators, one of them produced by a company named Centrax at Newton Abbott and paid for by Britain. It cost £200,000 and constitutes British aid for Japan! The Japanese also have 300 navigation buoys functioning in the Pacific on the same principle, invented by Commander Yoshio Masuda. It consists of a chamber open to the sea. As the waves rise and fall, a bubble of air is pushed out and sucked in and this drives an air turbine.

Britain has now started to buy these buoys and Trinity House has moored its first three off Great Yarmouth, Dover and Harwich. The wave power charges a battery which drives the flasher unit as well as lighting up the lamp. As to cost, it rapidly saves money. The conventional method of sending out a ship to change a gas canister costs well over £200 an hour and on average it takes four hours for each voyage. WAGs, as they are called by the Trinity House staff (wave activated generators) cost £3,000 each and with a saving of £800 each time the canister would have to be renewed, it does not take long to pay for itself.

In Britain, alas, a parsimonious Government programme is confining our inventors to small-scale laboratory testing.

David Ross, 55, Ruskin Park House, Champion Hill, SE5.

## Today's Events

## GENERAL

UK: Sir Derek Ezra, National Coal Board chairman, introduces the Board's annual report.

Manchester City Council meets to finalise measures to solve city's financial crisis.

British Shipbuilders' annual report published.

British Airways' annual report published.

Overseas: New Hebrides becomes independent.

President Portillo of Mexico visits Venezuela.

PARLIAMENTARY BUSINESS

House of Commons: Until 7 pm. Debate on Liberal motion on the plight of small businesses.

Debate on Opposition motion on effect of Government policies on the textiles and clothing industries.

House of Lords: Housing Bill, third reading. Motions to approve companies (directors report) (employment of disabled persons) regulations 1980.

Select Committees: Home affairs, on Home Office reports.

effect of Government policies on the textiles and clothing industries. Motion on the education (assisted places) regulations. Remaining stages of the Law Reform (miscellaneous provisions) (Scotland) Bill. Motions on the International Monetary Fund (increase of subscription) order.

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## HOW TO BEAT THE MARKET

The following six shares were among those recommended in the IC News Letter in 1977 and were all showing increases of at least 350% when the latest comprehensive table of our 1977 selections was published in March of this year. Even the average capital appreciation of all 54 shares recommended in 1977 was 144.0% compared with an equivalent fall of 1.4% on the FT Index. This represents a further

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Burmah Oil	41	196	+507.3	+378.0
Capital & C. Prop.	17½	94	+514.3	+437.1
De La Rue	119	610	+450.4	+412.6
Henderson-Kenton	44	212	+395.5	+381.8
White Industries	£50.91	£16.50	+3,525.4	+1,713.2
All 1977 Selections	—	—	+244.0	+144.0
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These figures are taken from a follow-up table published in the March 26, 1980, issue of the IC News Letter; this table is available on application.

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# INI presses International Harvester on Enasa deal

BY ROBERT GRAHAM IN MADRID

FINAL AGREEMENT on the proposed links between International Harvester of the U.S. and the loss-making Spanish truck maker, Enasa, seems unlikely to be completed tomorrow when the deadline for the deal is due to expire.

A top level delegation from the Spanish state holding company, INI, led by Sr. Jose Miguel de la Riva, the president, flew unexpectedly to New York on Monday and was due to meet with executives yesterday. Sr. de la Riva, whose company currently owns 91 per cent of Enasa, was expected to press IH to commit itself to the agreement, although INI is apparently willing to accept some delay.

For its part IH is still working on a detailed study of Enasa and its future operations. The main difficulty affecting the agreement has been the complexity of the proposed deal

and the size of the financial commitment IH is being asked to make in the face of serious trading losses at home.

In New York yesterday International Harvester confirmed that top level talks with Enasa were in progress, but would not comment on the progress of the negotiations.

IH is due to take a 35 per cent shareholding in Enasa as part of a wide-ranging agreement which includes linking the two companies' distribution networks and an investment of \$100m by IH in a new engine plant near Madrid.

Under the terms of January's outline agreement INI would first buy out the existing shareholders in Enasa and then sell 35 per cent to IH. INI would continue to cover all Enasa losses through to 1982. Last year they topped \$100m and this year will probably be larger.

The agreement also envisaged

heavy cuts in Enasa's workforce. The direct cost of the IH stake has never been disclosed.

Since the agreement with IH was of necessity tentative, INI in March took the precaution of talking to two Japanese motor groups, Toyota and Nissan, about Enasa's future and both these companies have retained a residual interest. Until January Nissan was considering a venture in which Enasa would be merged with Motor Iberica to form a large Hispano-Japanese automotive group.

If IH does go ahead with the Enasa and engine plant agreements, it will have set up one of the main springboards by which it hopes to become a significant force in the European truck market by the mid-1980s. IH already owns Seddon Atkinson, the Lancashire-based heavy truck maker, and has a 33 per cent stake in Dutch truck maker, DAF.

## Closures at U.S. Steel slow fall in earnings

By Ian Hargreaves in New York

UNITED STATES STEEL, the largest American steelmaker, in the second quarter continued to show earnings benefits from last year's costly programme of plant closures and redundancies.

In spite of a severely depressed quarter for the steel industry, which ended with U.S. Steel's steelmaking operations running at only 65 per cent of capacity, the company reported net income for the quarter of \$111.5m, compared with \$150.4m in the same quarter of 1979. Sales were down from \$3.6bn to \$3.1bn.

Mr. David Roderick, the chairman, said that while the bulk of the company's profits came from its non-steel operations, notably from chemicals and natural resources, last year's closures had prevented steel manufacturing from slipping into the red.

Mr. Roderick also painted a cautiously optimistic picture of the rest of the year to provide a "foundation for future progress." Steel production had improved, he said, and the company had demonstrated the success of its diversification programme.

He spoke, however, of further pressures to reduce the company's workforce beyond the 25,000 men currently laid off.

The rate of orders coming into U.S. Steel at the end of the quarter was almost 50 per cent below the peak level in early March, creating conditions for recession levels of production in the third quarter.

But none of this prevented U.S. Steel producing income considerably higher than some analysts' forecasts, mainly thanks to the maintenance of reasonably strong demand for the company's agricultural and some of its industrial chemicals.

For the half year U.S. Steel earned \$238m on sales of \$6.7bn, compared with profits of \$288m from sales of \$6.7bn last year.

Steel shipments in the first half were 9.1m tons, compared with 11.5m tons in the corresponding period of 1979.

## METRO-GOLDWYN-MAYER

# Riding back from the sunset

BY RICHARD LAMBERT, FINANCIAL EDITOR

GHOSTS are stirring in Culver City. By the summer of next year, Metro-Goldwyn-Mayer expects to be producing new films at a rate of 12 or 15 a year, compared with its recent annual output of only four or five new films. At around the same time, the company could also be approaching a decision to return to the film distribution business which it abandoned in 1973.

The film business has never been healthier than it is today," enthuses Mr. Frank Rosenfelt, MGM's president and chief executive. It has certainly come a long way from that bleak day ten years ago when, in what seemed a symbolic break with its glamorous past, MGM auctioned off such treasures as a pair of Kim Novak's underpants and the ruby shoes in which Judy Garland had once tripped along that Yellow Brick Road.

The turning point, according to Mr. Rosenfelt, came with The Godfather and "Jaws" really hit the screen the movie industry thought it was doing well if it could produce a film every five or 10 years which pulled in \$100m at the box office. Now, Mr. Rosenfelt says that half-a-dozen new films each year are producing such figures.

Mr. David Begelman, chief operating officer of MGM's motion picture division since January, suggests that by the early 1970s television had reached among the studios the same importance as the cinema. That made it possible to create a new audience willing to pay increasing box office prices for what he describes as "an event film"—a star-studded production with lots of special effects.

At the same time, important new sources of revenue have been emerging for the film business. Last year, pay-television grossed more than \$1bn

in the U.S. for the first time, compared with the cinema's total box office take of \$2.8bn. Pay-TV consists primarily of movie entertainment and has become a significant contributor to MGM's annual revenue of \$138m from feature films.

Mr. Rosenfelt also sees enormous opportunities in the development of video cassettes and, especially, videodisks. With a touch of hyperbole worthy of Louis B. Meyer himself, he "can see the time when every kid, not just in the U.S. but in the whole world will have his own Tom and Jerry set on disc."

A renewed commitment to the film industry is gathering pace at Metro-Goldwyn-Mayer, the film making company recently hived off from the MGM film and hotel group. New sources of revenue are emerging for this side of the business and output is to be lifted threefold from its recent annual production rate of four to five films.

MGM has a unique library of 1,600 feature films, including such hits as Gone with the Wind, The Wizard of Oz and 2001: A Space Odyssey. The book value is \$89m, which includes virtually nothing for films initially released more than 15 years ago. Last month, it announced plans to link this library with the extensive disc manufacturing and distribution facilities of CBS in a joint venture to market video cassettes and videodisks around the world.

Mr. Rosenfelt says the company will be happy to go along with any technology the hardware manufacturers care to name.

MGM plans to limit its financial exposure to individual

films by avoiding the \$20m or \$30m "blockbusters" and by being prepared, where appropriate, to seek pre-production finance by, for instance, setting up a deal with pay-TV. Yet, as was emphasised in a recent circular to shareholders, "the production of film projects is an extremely speculative endeavour" and the overall capital requirements of the business are set to increase sharply as production volumes build up.

To meet these needs, the film side has established a three-year unsecured revolving line

of credit for up to \$50m from Bank of America. It hopes that most of the rest of its needs can be met by self-generated funds, which have been running at upwards of \$40m a year.

Such ambitious expansion plans lie behind the decision to split MGM into two free-standing quoted companies—a move which was approved by shareholders at the end of March and has now been put into effect.

Over the 1970s, MGM developed its hotel and gaming interests in Las Vegas and Reno to the extent that in the 12 months to February, they accounted for two-thirds of group operating income. The hotel side has net assets of

\$140m, roughly in line with its 1979 earnings, and the next couple of years is proposing to spend around \$300m on extensions and a new hotel casino in Atlantic City.

Mr. Rosenfelt says that MGM saw a period when there would be intense competition for the two main parts of the group. It decided the best way to eliminate this friction would be to split itself into two companies—MGM Grand Hotels and Metro-Goldwyn-Mayer Film—and to let each company make its financing decisions on the basis of its own needs, irrespective of the others' requirements.

An added attraction of such a split was that it underlined MGM's renewed commitment to the motion picture industry. It increased prominence will, it hopes, enable it to have first bite at new projects and properties which might otherwise have gone to the competition.

Responsibility for selecting and screening the film production programme lies with Mr. Begelman, who has a four-year contract with MGM worth at least \$1.9m. He was at one time in charge of Columbia's motion picture division, where he brought out a string of hits such as Close Encounters of the Third Kind. But he left in controversial circumstances and in 1973 pleaded no contest to a charge of grand theft in connection with his employment at Columbia. After a period of probation the case was dismissed last year.

His current programme includes such titles as Tarzan, the Ape Man, Grand Hotel, and Whose Life Is It Anyway? "We live film by film," says Mr. Rosenfelt, reeling off the takings of MGM's big recent successes: The Champ, "These numbers are like the National Defence Budget to me—and they all add up happy."

## Copper price fall hits Asarco and Kennecott

By Our New York Staff

KENNECOTT CORPORATION and Asarco, two large metals concerns, saw profits slump in the latest quarter because of weakening copper prices and reduced demand.

Net income at Kennecott was \$21m, for 83 cents a share, down from \$33.3m or \$1 a share, in the same period last year. Sales were down from \$628m to \$577.2m.

Six month earnings were \$92.5m, or \$2.49 a share, up from \$84.5m, or \$1.64, half-year sales were \$1.2bn, virtually unchanged from last year.

The price of copper during the second quarter was about the same as in the comparable 1979 period. But the much stronger price which prevailed in the first quarter pushed profits up sharply in the first three months.

Second quarter profits at Asarco slumped from \$68.37m to \$32.53m, or from \$1.22 a share to \$1.10, leaving the half-year total at \$116.65m against \$105.72m. Earnings per share were up from \$3.46 to \$5.63. Sales for the quarter were \$454.86m (\$442m) and \$1.12bn (\$844.3m) for the six months.

## Arco maintains growth in second quarter profits

By Our Financial Staff

GROWTH AT Atlantic Richfield (Arco), a leading integrated U.S. oil group which owns The Observer newspaper, has been maintained in the second quarter, and shareholders are to get a bigger payout.

The quarterly dividend is being increased from 42 cents to 47 cents a share, payable September 15 to shareholders registered on August 8. The new dividend, giving effect to the two-for-one split of May 8, is equal to an annual rate of \$1.90 per share.

Net earnings amounted to \$434.8m or \$1.75 a share in the second quarter, against \$260.4m or \$1.08 a share in 1979, on revenues up from \$3.7bn to \$5.6bn.

Profits for the half-year totalled \$890.9m or \$3.49 a share, against \$502.6m or \$2.05 a share in 1979, on revenues increased from \$7.2bn to \$11.1bn.

The company said principal contributors to the income gain in the second quarter were higher production of crude oil from Alaska's North Slope and improved prices.

Phillips Petroleum, the U.S. oil group with large North Sea interests, reported only a small gain in profits for the latest

quarter, but blamed this on Norwegian tax policy and the weakness of downstream U.S. operations.

Earnings were \$214.8m, or \$1.41 a share—only slightly above the \$214.6m or \$1.39 a share reported in the same period last year. Revenue in the second quarter was \$3.33bn, up from \$2.2bn.

For the six-month period, Phillips earned \$499.3m or \$3.26 a share, up 27 per cent on last year's \$391.6m or \$2.54 a share. Revenue was up from \$4.20bn to \$6.61bn.

Phillips said the six-month figures reflected the impact of Norwegian taxes which had been made retroactive to January 1 of this year, and had reduced earnings by \$117.8m.

Mr. William Douce, chairman, said that basic earnings had increased due to higher oil production and higher prices for oil and gas. But second quarter profits were hit by the glut of petroleum products on the U.S. market, and this affected Phillips' refining, marketing and transportation activities.

Second quarter earnings from the company's chemical operations were also down because of higher costs and a weak market.

## INTERNATIONAL BONDS

# DM 200m World Bank issue

By Francis Ghilès

THE WORLD BANK has arranged a DM 200m private placement in the foreign D-Mark bond market.

The last bond for this borrower in the foreign D-Mark sector, completed two weeks ago, was a DM 700m public bond issue which offered a yield of 8.11 per cent.

The World Bank has been a prolific borrower of late. Since early June it has arranged Eurobonds worth almost \$1.2bn equivalent in the dollar, D-Mark and Swiss franc sectors.

In the secondary D-Mark bond market, prices of seasoned issues firmed slightly on the day. This was also the case in the secondary Swiss franc bond sector.

In the dollar sector, prices of seasoned issues slipped by about a point on the day, reflecting Monday's fall in the New York bond market. At these lower levels, however, some dealers report some buying interest.

## AMERICAN QUARTERLIES

SECTOR INDUSTRIES

1980 1979

Revenue \$ 57.3m 48.9m

Net profits 1.3m 1.3m

Net per share 0.49 0.12

Six months

Revenue 132m 97.9m

Net profits 16.3m 21.9m

Net per share 1.42 1.84

QK TECHNOLOGIES

1980 1979

Revenue 306.6m 395.1m

Net profits 12.25m 13.58m

Net per share 1.42 1.05

Six months

Revenue 611.3m 582.3m

Net profits 38.64m 24.22m

Net per share 3.03 1.54

JOHNS-MANVILLE

1980 1979

Revenue 566.2m 582.6m

Net profits 56.33m 80.42m

Net per share 0.62 1.25

Six months

Revenue 1116m 1068m

Net profits 109m 121.5m

Net per share 1.20 1.30

MILTON BRADLEY

1980 1979

Revenue 82.7m 68.4m

Net profits 4.31m 4.46m

Net per share 0.96 0.98

Six months

Revenue 153.8m 131.1m

Net profits 8.07m 8.35m

Net per share 1.15 1.28

SUN COMPANY

1980 1979

Revenue 3m 2.5bn

Net profits 267m 166.8m

Net per share 1.95 1.33

Six months

Revenue 6.1bn 4.9bn

Net profits 498.3m 295.1m

Net per share 4.11 2.50

TRANSCANADA PIPELINES

1980 1979

Revenue 922.4m 684.4m

Net profits 37.1m 22.2m

Net per share 1.44 0.38

Six months

Revenue 1.96bn 1.34bn

Net profits 78.5m 48.6m

Net per share 3.05 2.08

UNITED ENERGY RESOURCES

1980 1979

Revenue 37.1m 22.2m

Net profits 1.44 0.38

Net per share 1.44 0.38

Six months

Revenue 78.5m 48.6m

Net profits 48.6m 29.5m

Net per share 3.05 2.08

UNITED ENERGY RESOURCES

1980 1979

Revenue 37.1m 22.2m

Net profits 1.44 0.38

Net per share 1.44 0.38

Six months

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Net profits 48.6m 29.5m

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Net profits 48.6m 29.5m

Net per share 3.05 2.08

UNITED ENERGY RESOURCES

1980 1979

Revenue 37.1m 22.2m

Net profits 1.44 0.38

Net per share 1.44 0.38

Six months

Revenue 78.5m 48.6m

Net profits 48.6m 29.5m



## INTL. COMPANIES &amp; FINANCE

IS QUARTERLY REPORT

## Oil exporters repay their debts

BY PETER MONTAGNON

MEMBERS OF the Organisation Petroleum Exporting Countries repaid more than \$4bn of debt to international banks during the first quarter of this year, according to the Bank for International Settlements. The development sheds new light on the recycling process in the oil-exporting area, when some international banks said they were coming less aggressive in lending to the oil-exporting countries following the political crisis in Iran.

As they repaid their debt, OPEC members also restrained the growth of their deposits in the banking system. These fell by only \$9.3bn in the first quarter of 1980, compared with an increase of \$13.4bn in the first quarter of 1979. Only about 30 per cent of the new deposits are denominated in dollars.

A significant portion of the increase in Eurocurrency deposits during the period was due to the release of the previously tied up in OPEC rather than to an increase of banks' liabilities to OPEC resulting from the new current account payments.

At the end of the period OPEC members' outstanding deposits from international banks totalled some \$59.8bn,

while their deposits in the banking system were \$129.6bn. The BIS reports that total international lending activity during the first quarter rose by only \$6.5bn to \$1,177bn. International bank liabilities grew somewhat faster at \$16.8bn to \$1,137bn. As usual the

The figures are distorted by the sharp appreciation of the dollar during the period. After adjustment for exchange rate movements and excluding inter-bank business, the true first quarter growth in international lending was probably around \$30m, the BIS estimates. This

bank sector.

This sector took as much as \$6bn of the total \$26bn lent within the reporting area. By contrast, net new lending outside the reporting area slipped to only about \$4bn from \$20bn in the previous quarter.

This partly reflects the repayments of OPEC credits, but there was also a pronounced slowdown in new lending to non-oil developing countries and to Comecon. Both these groups drew down deposits with the reporting banks during the quarter.

Another feature of international lending during the first quarter was a preference by borrowers for non-dollar currencies, especially the German Mark and Swiss franc.

Because of the high interest rates prevailing on dollars, nearly 80 per cent of the increase in the reporting banks' total external assets was denominated in currencies other than the dollar.

On the supply side of the Eurocurrency market, there was a marked jump in Eurosterling liabilities of the reporting banks. These rose 31 per cent or the equivalent of \$4.6bn during the quarter.

But because of the high sterling interest rates banks were unable to extend all the new funds. Their net debtor position in sterling thus virtually doubled to \$7.7bn.

## INTERNATIONAL BANK LENDING BY LOCATION

	(Outstanding amounts in \$bn)			
	March 1979	Sept. 1979	Dec. 1979	March 1980
G10 countries and Switzerland, Ireland, Austria and Denmark	457.2	546.7	587.7	599.1
Offshore centres	121.6	147.7	155.4	157.3
Other Western Europe	49.6	56.1	58.7	59.0
Australia, New Zealand and South Africa	13.0	13.9	13.7	12.8
Eastern Europe	47.0	52.3	55.9	53.2
OPEC	55.5	62.5	64.1	59.8
Non-oil LDCs	127.1	146.6	158.8	159.7
Unallocated	12.5	15.2	16.2	16.3
Total	883.5	1,041.5	1,110.7	1,177.2

Source: Bank for International Settlements

figures are based on reports from banks in the Group of Ten industrialised countries together with Austria, Ireland, Denmark, Switzerland, and offshore branches of U.S. banks.

Despite the modest increase in current dollar terms, the underlying rate of expansion in international lending remained strong, the BIS said.

was only \$5bn less than the rate of growth during the previous quarter.

There was, however, a marked divergence of lending activity. Lending outside the reporting area slowed significantly, while there was a strong increase in lending within the area, with particular emphasis on borrowings abroad by the German non-

## Sales rise at Engins Matra

By Our Financial Staff

ENGINS MATRA, French maker of electronic equipment for missiles, has announced sales of FF 1,156bn (\$289m) in the first half, up 20.6 per cent from a year earlier.

Matra said its profit margins had been maintained. Overall, the company's results, and prospects appear to be very favourable.

It had booked FF 2.5bn of new orders in the first six months, against FF 957.6m

## Commerzbank sees recovery

BY KEVIN DONE IN FRANKFURT

COMMERZBANK, West Germany's third largest commercial bank, has suffered a further profit setback during the first six months of 1980 with margins remaining under pressure during most of the period.

For the second half of 1980 Commerzbank is rather more optimistic and it is hopeful that the widening interest margin will lead to some recovery in the operating result. This process should be aided by the first signs of a carefully easing of the Bundesbank's hitherto tight monetary policy.

The difficulties facing West German banks in general are also reflected in the Commerzbank's business volume in the first half of 1980, which fell back slightly to DM 67.6bn at the end of June, compared with DM 68.8bn at the end of 1979.

This decline comes after several years of powerful growth and is further evidence of the German banks' need to pay far more attention to the quality of their new and existing business in the face of falling profitability.

Even overseas, Commerzbank has cut back the amount of short-term money dealing carried out by its network of foreign branches—this was expanded to ten in the spring with the opening of a branch in Madrid—although lending to non-bank customers has been further expanded.

The share of the foreign branches' activities in the total

business of the parent bank actually declined slightly in the first six months of 1980. The profitability of import-export financing and foreign exchange dealing has further improved in the first half of the year, however.

The business volume of the domestically consolidated Commerzbank group showed a slight rise in the first half of 1980 from the end of 1979 to DM 103bn.

Commerzbank's securities dealings showed strong progress as a result of the turbulence in the markets, and its total commission surplus was up by 12.2 per cent to DM 191.8m in the first half of the year, compared with a six-monthly average for 1979 of DM 170.9m.

The pressure on the interest margin forced the interest earnings surplus into further decline, however, with a fall of 15.4 per cent to DM 459.8m.

## Manufrance to receive further State cash

BY DAVID WHITE IN PARIS

THE FRENCH Government has made it clear it is prepared to put up further funds to help Manufrance, the floundering business based at Saint-Etienne, near Lyons, back on to its feet.

The offer, pegged to a thorough restructuring programme and fresh money from shareholders, came as the latest in a series of "last resorts" after the author of the most recent rescue bid, M. Bernard Tapie, the Parisian entrepreneur, withdrew from the scene.

M. Tapie's backdown came just five days after he had presented a plan which would have split up Manufrance's different activities. The company would have been left with its firearms business, its sporting magazine, and its sewing machine production. Its mail-order and bicycle interests would have come under the control of specialised

groups and its shops would have been sold.

But shareholders made no move to discuss the plan, and M. Tapie "disengaged" himself. The idea of dismantling the company, which at present employs 1,500 people, is strongly opposed by Communist trade unionists and by the Communist-controlled local authorities.

The Government has already pumped some FF 30m (\$7.5m) into the company—in two stages. Its latest offer is made on condition that measures are taken to pull the company back into profit. It also requires a similar gesture from MACIF, the mutual insurance group which took part in a reorganisation in May last year and which has emerged as the dominant shareholder in the re-launched company.

## EUROPEAN OPTIONS EXCHANGE

Series	Vol.	Oct. Last	Vol.	Jan. Last	Vol.	April Last	Stock
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Limited

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3rd July, 1980.

## Robert Bosch Power Tool Corporation

a member of the Bosch Group

has acquired the

### Stanley Power Tools Division

of

### The Stanley Works

We served as financial adviser to the Bosch Group  
and assisted in the negotiations.WARBURG PARIBAS BECKER  
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July 1980

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Al Bahrain Arab African Bank (E.C.)  
"ALBAAB"

Signed in Stockholm in the presence of H.E. the President of the United Mexican States.

Companies  
and Markets

## INTL. COMPANIES & FINANCE

### MATSUSHITA

## Fast pace in overseas sales rise

BY CHARLES SMITH, FAR EAST EDITOR, IN TOKYO

MATSUSHITA Electric Industrial Company, Japan's largest consumer electric appliances manufacturer, has reported a 24 per cent increase in its consolidated sales to ¥1,370bn (\$8bn) for the six months ended May 20, largely as a result of sales abroad. Net profits were up 32 per cent, to ¥58bn (\$3.5bn), while operating profits rose 30 per cent to ¥149.9bn.

Matsushita's good results reflect sharp increases in sales of video tape recorders, television sets and audio equipment (up 30 per cent to ¥620bn). The company publishes no figures for video tape recorders alone but it appears that sales of the VHS system video tape recorder pioneered by the Matsushita affiliate, Victor Company of Japan—and manu-

factured by both Victor and Matsushita—rose particularly fast.

Victor, in which Matsushita has a 50.4 per cent equity stake, is included in Matsushita's consolidated results along with 121 other manufacturing and sales affiliates.

The success of the consumer electronics division (TVs and VTR) put all other Matsushita divisions in the shade during the six months to May 20. However, sales of other items also rose by substantial margins. Home appliances (washing machines, microwave ovens and so on) were up 18 per cent to ¥359.9bn while communications and measuring equipment recorded a 27 per cent gain at ¥83.8bn.

Three other divisions—industrial equipment, lighting and semiconductors, and batteries—

recorded sales increases ranging from 16 per cent to 26 per cent, and accounted collectively for nearly ¥175bn of sales.

Matsushita's overall 24 per cent sales increase conceals a much sharper rise in overseas sales (both exports and sales of products manufactured outside Japan). These rose by 50 per cent to ¥506.5bn. Domestic sales rose by a more modest 12 per cent to ¥863.7bn.

The VTR boom in the U.S., western Europe and most recently the Middle East undoubtedly helped to boost exports. Year depreciation made exports unexpectedly profitable, since the company had budgeted for an exchange rate of ¥220 to the dollar appreciably above the actual exchange rate.

Matsushita's consolidated results at present cover only four out of 39 overseas manufactur-

ing affiliates—in the U.S., Taiwan, Malaysia and Singapore. Other major overseas ventures, including the Matsushita factory in South Wales, are yet to be included in the results.

On the strength of its first half year, Matsushita has revised its consolidated sales forecast for the year from ¥2,600bn to ¥2,800bn. Net profits are expected to rise against the ¥110bn previously forecast. Consolidated sales in 1978-79 were ¥2,363bn, and net profits ¥88.3bn.

TOKYO—Honda Motor Company is to make a quarterly scrip issue of ¥500 million shares, to shareholders, in August 31. The company's capital after the issue will be ¥336.38bn, against the previous ¥333.07bn, Reuters.

### Nippon Kokan steps up gain at group level

By Our Financial Staff

NIPPON KOKAN, the second largest Japanese steelmaker, increased its consolidated net income by 165 per cent in the year to March 31, to ¥26.25bn (\$177m), from ¥9.92bn in 1978-79. This shows a somewhat faster rate of growth in net income than that at parent company level, of 144 per cent to ¥25.1bn, announced in May.

Consolidated sales were up 13.3 per cent to ¥1,360bn (\$8.1bn), from ¥1,200bn, broadly matching the rate of increase on a parent company basis of ¥1,310bn.

Kawasaki Heavy Industries, the integrated heavy machinery maker and shipbuilder, returned to net profit on a consolidated basis in the year, with earnings of ¥324m (\$1.4m), compared with the previous year's loss of ¥8.74bn. Sales rose 6.8 per cent to ¥615.63bn (\$2.7bn), from ¥578.21bn. In May, the company announced a net profit of ¥2.31bn for the parent company alone, compared with a loss of ¥5.9bn in 1978-79, on flat sales of ¥501.5bn.

Marubeni Corporation, the Japanese trading house, has reported a consolidated net profit of ¥17.24bn (\$77m) for the year to March 31, compared with a net deficit of ¥3.77bn in 1978-79. Sales showed a gain of 38.7 per cent to ¥8,740bn (\$39bn), from ¥6,300bn. The consolidated profit is some 80 per cent higher than that at parent company level, of ¥9.56bn, announced earlier, and shows a more marked improvement—the parent alone having achieved net profits of ¥4.41bn in 1978-79. Parent company sales were ¥8.39bn, up 33.8 per cent.

Mitsui Toatsu Chemicals more than trebled its consolidated net profit in the year to March 31, to ¥13.18bn (\$58m), from ¥4.13bn the previous year. Sales rose 36.3 per cent to ¥580.53bn (\$2.6bn), from ¥425.97bn. These results follow those of the parent company, which increased its net profit eight times, to ¥9.06bn from ¥1.13bn, on sales up 33.2 per cent to ¥405.87bn.

Konishiroku Photo Industry, Japan's second largest producer of photosensitive materials, has reported a fall of 26.1 per cent to ¥4.83bn (\$21.3m) in consolidated net profits for the year to April 20, from ¥6.54bn the year before. Sales, however, were up 25.6 per cent, to ¥227.9bn.

### SAAN makes strong recovery

BY JIM JONES IN JOHANNESBURG

A STRONG RECOVERY has been made by South African Associated Newspapers, the publisher of the Rand Daily Mail, Financial Mail, Cape Times and Sunday Times, from last year's first-half profit setback. The company's operating profit for the six months to June 30 was R5.02m (\$4m), against R611,000 in the first half of last year. For the whole of 1979, the operating profit was R4.51m.

The main contribution to the advance, the management says, came from higher advertising revenue. Despite competition from television, the volume of press advertising has not been higher for many years. However, there were some drawbacks. Operating costs are substantially higher than in 1979, particularly for newspaper salaries and wages. This was offset to an extent by higher cover prices for the group's publications.

The management does not go into details on individual publications, except to report that the profit contribution from the Financial Mail was well above that made in 1979. The Rand Daily Mail, which has been a loss-maker for some years, is seeking to improve its performance by a further cover price rise.

Mr. Clive Kinsley, the managing director, cautions that the volume of colour advertising, particularly in the Sunday Times, is limited by available press capacity. In addition, newspaper prices will be substantially higher from this month while labour costs affecting all sides of production and distribution continue to escalate.

On this basis, the management expects the current six months' results approximately to equal those of the second half of 1979.

An interim dividend of 20 cents has been declared, compared with 8 cents in 1979, from first-half earnings per share of 100 cents, against 24 cents. Earnings totalled 149 cents per share in 1979, and a total dividend of 45 cents was declared.

### Keppel plans share offer

SINGAPORE—Keppel Shipyard said it will offer shares to the public soon. An announcement on the timing and size of the issue is expected to be made before the end of the year.

Keppel is working out details of the proposed issue with its merchant bankers, The Development Bank of Singapore.

According to Stock Exchange rules a company must offer at least 25 per cent of its paid-up capital to the public to seek a listing on the exchange.

Keppel recently increased its paid-up capital to S\$70m (US\$33m) through a rights issue of 10m shares of S\$1 nominal value at S\$3 each. The company said the funds to be raised from the proposed

public issue will be used to meet large capital commitments in the next few years.

Last December, Keppel began construction of the second phase of its Tuas shipyard expansion plan, which involves a 330,000 dwt drydock and associated facilities costing about S\$100m. The project is expected to be completed by early 1982.

The first phase of the complex, costing about S\$90m, was completed in early 1977. Keppel is a wholly-owned subsidiary of Temasek Holding, an investment holding company of the Government. For the 1979 financial year, Keppel made a group pre-tax profit of S\$42.3m (US\$20m), against S\$6.2m in 1978, and paid an unchanged dividend of 15 per cent. Reuters

### Gammon House sale talks

By Philip Bowring in Hong Kong

MAL HON ENTERPRISES yesterday announced that it was in an advanced stage of discussion to sell Gammon House, a central district office block, for U.S.\$310m, (HK\$1.54bn). Mal Hon acquired the building earlier this month in an HK\$1.1bn deal with its parent group.

Carrian bought Gammon House for HK\$998m from the Hongkong Land Company in January. Hongkong Land had in turn acquired it from Jardine Matheson in late 1978 for HK\$715m. Hongkong Land sold the building because the interest cost of the money borrowed to acquire it was more than double the rental income.

### Price increases boost Malayan Cement

BY WONG SULONG IN KUALA LUMPUR

MALAYAN Cement Berhad, Malaysia's largest cement manufacturer, has improved on its performance of the past few years, reporting a 66 per cent rise in earnings for the six months to May.

Pre-tax profits rose to 9.6m ringgit (US\$4.5m), from 5.8m ringgit previously, reflecting largely the benefits arising from the 30 per cent increase in cement prices approved by the Government last August.

Malayan Cement, and other cement manufacturers, have complained bitterly in the past of the fixed price for cement being the main cause of their poor earnings.

Higher tax meant that interim net profits were 37 per cent better, at 4.8m ringgit. The interim dividend is 11 per cent, against 10 per cent previously.

BENJAYA KAWAT, the Malaysian wire rope and steel products manufacturer, has reported a 41 per cent rise in pre-tax profit, on the strength of local and overseas demand,

particularly in the Malaysian construction and logging industries.

Pre-tax profit for the company rose to 5.3m ringgit (US\$2.5m) in the year ended April, from 3.7m ringgit the previous year. In addition the share of profit from its associate, BRC-Berjaya Kawat doubled to 390,000 ringgit.

However because of deferred taxation, the tax charge is doubled, at 3m ringgit, so that net profit amounted to 2.6m ringgit, or 8 per cent higher



### African Development Bank

U.S. \$40,000,000

Floating Rate Notes due 1983

For the six months

30th July, 1980 to 30th January, 1981

In accordance with the provisions of the Note, notice is hereby given that the rate of interest has been fixed at 9 1/2 per cent and that the interest payable on the relevant interest payment date, 30th January, 1981 against Coupon No. 5 will be U.S. \$50.79.

By: Morgan Guaranty Trust Company of New York, London Agent Bank.

### WINTRUST SECURITIES LIMITED

### BANKERS

have much pleasure in announcing that Mr. REINDERT MARSMAN, recently Vice-President and General Manager of the Bank of Nova Scotia (London Regional Office), has been appointed an executive director. He will participate in the further development of the bank's business specifically in the international area.



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### Barclays Overseas Investment Co. B.V.

U.S. \$200,000,000

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Coupon Values will be:  
U.S. \$5,000 Notes U.S. \$258.93  
U.S. \$10,000 Notes U.S. \$517.86

Agent Bank and Principal Paying Agent

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Securities Services Department  
54 Lombard Street London EC3P 3AH



U.S. \$150,000,000

### CHASE MANHATTAN OVERSEAS BANKING CORPORATION

FLOATING RATE NOTES DUE 1993

For the six months

30th July, 1980 to 30th January, 1981

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest payable on the relevant interest payment date, 30th January, 1981 against Coupon No. 5 will be U.S. \$50.79.

Agent Bank Morgan Guaranty Trust Company of New York, London



## THE POUND SPOT AND FORWARD

U	% change from central rate	% change adjusted for divergence	Divergence limit %
	+1.22	+0.39	±1.93
	+0.99	+0.16	±1.64
	+1.58	+0.75	±1.125
	-0.03	-0.88	±1.2657
	+0.30	-0.53	±1.612
	+0.54	-0.29	±1.898
	+3.07	+2.47	±4.08

A positive change denotes a devaluation calculated by Financial Times.

THE DOLLAR SPOT AND FORWARD						
	Day's spread	One month	Three months	Six months	One year	Two years
July 29						
UK†	2,386S-2,391S	2,370S-2,371S	1.46-1.35c pm	7.09	3.53-3.43 pm	7.09
Ireland†	2,135S-2,140S	2,135S-2,137S	1.45-1.35c pm	7.08	3.52-3.40 pm	7.08
Canada	1,163S-1,182S	1,165S-1,162S	0.08-0.12c ds	-1.08	0.32-0.36ds	-1.17
Nethld.	1,918S-1,916S	1,910S-1,910S	0.85c pm	0.16	1.05S-0.94S	0.00
Belgium	25,711S-7,111S	25,725S-7,111S	75-75c	22	22-22	22
Denmark	2,419S-2,436S	2,429S-2,436S	3½-2c ds	-6.22	12-12½	-6.00
W. Ger.	1,759S-1,769S	1,758S-1,759S	1.31-0.09S pm	0.75	0.40-0.43 pm	1.00
France	49-40-45	49-40-45	20-30S ds	-7.09	10-10 ds	-6.00
Spain	71-65-71S	72-73-71S	20-30S ds	-7.09	10-10 ds	-6.00
Italy	125-125	125-125	8-9½c	12.5	25-25	13.0S
Norway	4,830S-4,835S	4,835S-4,838S	20-09c pm-30ds	0.12	0.30-0.30ds	-0.40
Austria	0,622S-0,629S	0,674S-0,672S	0.95-0.85c ds	-1.77	1.50-2.05ds	-1.50
Sweden	4,126S-4,133S	4,126S-4,133S	0.70-0.75c ds	-3.57	1.00-1.00ds	-1.40
Switzerland	12,404-12,400	12,404-12,400	0.60-0.75c ds	-3.57	1.00-1.00ds	-1.40
Greece	12,404-12,400	12,404-12,400	1.10-1.70S ds	-1.36	3.75-5.00ds	-1.34
Switz.	1,600S-1,620S	1,622S-1,623S	0.83-0.98c pm	8.47	1.77-1.72c	8.43

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts are in pence.

CURRENCY RATES				CURRENCY MOVEMENTS		
July 28	Bank rate %	Special Drawing Rights	European Currency Unit	July 29	Bank of England (index)	Morgan Guaranty (changes)
Sterling	16	0.5552326	0.604555	Sterling	75.1	-51.4
U.S. \$.	15	1.132949	1.445635	U.S. dollar	84.1	-9.3
Canada \$.	10, 18	0.714788	0.87139	Canadian dollar	80.9	-17.1
Austria Sch.	64	15.2883	17.8524	Austrian schilling	116.5	+1.6
Belgium F.	13	56.9291	60.1387	Belgian franc	126.1	-5.6
Danish K.	7	1.14788	1.73591	Danish kroner	108.1	-5.6
D.Mark	7 1/2	3.31036	2.51940	Dutch guilder	156.8	+79.5
Guilder	9	2.62612	2.76530	Swiss franc	120.0	+2.8
French Fr.	15	5.65376	5.94771	Guilder	126.5	+0.4
Yen	16	1.07707	1.18205	French franc	109.4	-5.4
Norwegian Kr.	9	301.189	328.703	Lira	124.9	-2.0
Spanish P.	9	3.87585	4.95931			
Swedish Kr.	14	4.0358	5.1564			
Swiss Fr.	10	5.46009	5.95923			
	3	2.12691	2.31996			

Based on trade weighted changes from Washington agreement December, 1971 (Bank of England index = 100).

July 29	£	\$	Note Rates
Argentina Pesos	4,451/4,471	1,777/1,784	23.35-29.65
Argentine Dollar	8,050/8,094	0,850/0,855	60.45-57.95
Brazil Cruzeiro	1,129/1,128.19	0,655/0,58	18.85-12.95
Brazil Real	9.59-9.50	2,517/3,5180	9.02-5.55
Great Drachma	101,795-104,052	45.75-49.80	1.25-1.8
Hong Kong Dollar	11,682-11,701	4,980/4,950	1,050-1010
Iran Rial			5,341
Kuwait Dirham	0,651/0,637	0,907/0,974	4,521/4,554
Luxembourg Pfr	56.65-65.65	39.05/38.11	1.16-1.16
Netherlands Guilder	2,023/2,023	1,676/2,1480	112-116
New Zealand Dlr	2,4195/4,174	1,0175-1,0185	1685/-704
Saudi Arab. Riyal	1,000/1,000	1,110-1,110	1.00-1.00
Singapore Dollar	5,030-5,030	2,1180-2,1200	3.55-3.54
Sth. African Rand	1,060/1,060	5,675/5,7680	2,367-2,377
Sri Lanka Rupee	9.71-9.77	0,0810-0,0850	55-56

EXCHANGE CROSS RATES										
July 29	Pound Sterling	U.S. Dollar	Deutsche Mark	Japanese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canadian Dollar	Belgian Franc
Pound Sterling	1	2.271	4.173	337.8	9.558	3.850	4.548	1967.	2.758	66.60
U.S. Dollar	0.442	1.	1.760	226.9	4.074	1.624	1.918	888.8	1.163	28.10
Deutsche Mark	0.240	0.568	1.	128.9	2.315	0.923	1.090	471.4	0.661	15.96
Japanese Yen 1,000	1.860	4.406	7.759	1000.	17.98	7.159	6.457	3658.	5.128	125.8
French Franc 10	0.1055	2.455	4.330	556.8	1.	3.987	4.708	9037.	2.855	68.96
Swiss Franc	0.260	0.616	1.084	138.7	2.508	1.	1.761	810.9	0.716	17.50
Dutch Guild	0.220	0.521	0.918	118.3	2.124	0.847	1.	432.6	1.606	14.65
Italian Lira, 1,000	0.506	1.205	2.181	275.4	4.910	1.957	2.312	1000.	1.408	35.86
Canadian Dollar	0.365	0.860	1.513	195.0	5.502	1.396	1.649	715.3	1.	24.15
Belgian Franc 100	1.502	3.559	6.265	807.4	14.50	5.781	6.828	2953.	4.140	95.00

FT LONDON INTERBANK FIXING (11.00 a.m. JULY 29)			
3 month U.S. dollars		6 month U.S. dollars	
bid 9 5/8	offer 9 5/4	bid 9 15/16	offer 9 15/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for \$10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Citicorp, Union Bank of Switzerland.

EURO-CURRENCY INTEREST RATES (Market Closing Rates)											
	July 29	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Asian \$	Japanese Yen
Short term.....	—	8½-9½	9-11	9½-10½	2½-3	8½-9½	11½-11¾	25-50	8½-9	23-25	
3-6 days' notice..	18½-19½	9-9½	9-11	9½-10½	2½-3	8½-9½	11½-11¾	25-50	13½-14½	13½-14½	
1 month.....	17½-17¾	9½-9¾	10½-11	9½-9¾	5-5½	8½-9	11½-11¾	24½-25½	9½-9¾	12½-13½	
Three months.....	15½-16	9½-9¾	10½-11	9½-9¾	5-5½	8½-9	11½-11¾	23½-24½	9½-9¾	12½-13½	
Six months.....	14½-15½	9½-10	10½-11	9½-9¾	5-5½	8½-9	11½-11¾	23½-24½	9½-9¾	12½-13½	
One year.....	13½-13¾	9½-10½	10½-11	9½-9¾	5-5½	7½-8	11½-11¾	20½-22	10-10½	9½-10½	

Long-term Eurodollar two years 10½-10¾ per cent; three years 10½-11 per cent; four years 11-11¼ per cent; five years 11½-11¾ per cent; nominal closing rates.  
The following nominal rates were quoted for London dollar certificates of deposit: one-month 8.55-9.05 per cent; three-months 9.10-9.20 per cent; six-months 9.15-9.25 per cent.

slightly firmer trend once again in New York after the London close.

In Paris the 12½ kilo gold bar

# shortage

Bank of England Minimum Lending Rate 16 per cent

Day-to-day credit remained in short supply in the London money market yesterday, with the principal factor working against the market, being the repayment of Monday's exceptionally large lending. This prompted the authorities to give assistance on an exceptionally large scale once again, by buying small number of Treasury bills and local authority bills, both from banks and discount houses, and moderate purchases of eligible bank bills, all for resale at future dates.

In the market's favour there was a small excess of Government disbursements over revenue transfers to the Exchequer.

In the interbank market, the general shortage of funds was

## LONDON MONEY RATES

slightly firmer trend once again  
in New York after the London  
close.  
In Paris the 12½ kilo gold bar

(\$646.79 per ounce) in the afternoon, compared with FFr 84,500 (\$646.55) in the morning, and FFr 83,400 (\$642.48) Monday afternoon.

In Frankfurt the 12 1/2 kilo bar was fixed at DM 36,425 per kilo (\$646.97 per ounce), compared with DM 36,070 (\$644.97) previously, and finished at \$645-648 against \$643-645 on Monday.

	July 24	July 28
GOLD COINS (per ounce)		
India	\$647.650	(£272 1/2-274, (\$269 1/2-271)
Japan	\$648.549	(£272 1/2-273 1/4, (\$268 1/2-270 1/4)
Morning fixing	\$648.50	\$648.255
Afternoon fixing	\$648.75	(£268 1/2-269 1/4)
Gold Coins		
Guerrero	\$649.871	\$655.567
	\$653.597	(£269-265)
Law Sovereigns	\$654.155 1/2	(£278-282)
Law Sovereigns	\$656.180	(£279 1/4-280 1/4)
Law Sovereigns	\$656.180	(£279 1/4-280 1/4)
French 50c	\$654.167	(£263 1/2-264 1/2)
10 Pesos Mexico	\$679.780	\$767.802
20 Eagles	\$681.655	\$684.539 1/2
20 Eagles	\$686.780	\$775.753
10 Eagles	—	—
5 Eagles	—	—

July 29 1980	Certificate of deposit	Interbank A d
		15.85

overnight .....			1
days notice .....			1
days notice .....			1
one month .....	16½-18½	18½-18½	1
two months .....	17-17½	17-17½	1
three months .....	18-18½	18-18½	1
six months .....	18½-19	18½-19	1
nine months .....	19-19½	19-19½	1
one year .....	19½-20	19½-20	1
two years .....	20-21	20-21	1

Local authority and finance houses are usually able to offer the following rates:

5% per cent approximate selling rate for one-month deposits	14-14½ per cent.	Approximate
5% per cent three-months deposits	14½-15 per cent.	Approximate
5% per cent one-year deposits	15-16 per cent.	Approximate

[illegible]

**CONTRACTS AND TENDERS      RESIDENTIAL PROPERTY**

## RESIDENTIAL PROPERTY

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# Dow shade up at mid-session

# Session

profit performances by  
nts Reunison and Mount  
where in Minings.  
Mining picked up \$  
to AS\$30, but Utah fell  
cents to AS\$5.00 and Peko-  
cents to AS\$2.20. A  
ota Oil, AS\$2.90, relinquished  
y's share of 35 cents, while  
shed 20 cents to AS\$1.50.  
ys that Australia has signed  
000 tonne raw sugar deal  
China pushed Bundarra  
10 cent higher at AS\$7.5  
ioneer Sugar 5 cents up to  
t, but major producer CSR  
unchanged at AS\$7.40.

is by Wall Street's over-  
inner trend, shares on the  
Source became firmer-  
ed yesterday.

sks, Real Estates, Foods,  
uctions, Rubbers, Print-  
and Stores were mainly  
cent. Electricals, Oils  
chemicals were mixed but  
easier.

ique Occidentale moved  
14 to Ffr 22.  
FFr 11.8 to Ffr 204.5  
nygies Ffr 9 to Ffr 655.

annessburg  
shares closed mainly  
after fairly active trading.  
Reefs stood out with an  
e of R275 to R89.50.  
Kysta hardened 25  
o R\$7.00 and Randfontein  
ts to R\$1.25.  
ner Financials were mixed  
er, with UCI up 30 cents  
fter interim figures.  
nd leading De Beers gained  
ts to R11.80.  
mmums were easier, Coppers  
and Industrials firmer in

sterdam  
prices closed mixed with  
bias. Unilever, Royal  
Heineken, Robeco,  
and Volker Stevin  
between Fl 1.00 and  
among the most active

July 29	Price Yen	+ or -
Akubota	577	-1
Umagaki	596	-7
S. Yoko	582	-8
Ison	582	-8
Maeda Cons.	509	-1
Kanai	562	-1
Tarumi	610	-3
Natsushita	685	-5
Fuji Elec Works	665	+1
Yokohama	665	-1
Yoshi Corp.	649	+5
Yoshi Elec.	189	-20
Yoshi N. Est.	174	-
IHI	426	+8
Iritsu Co.	487	-
Iritsu R. Est.	426	+8
Iritsu Ind.	426	-
GK Insulators	471	-4
Ippon Denso	595	-2
Ippon Galv.	595	-2
Ippon Meat	480	-5
Ippon Sinter	470	+20
Ippon Shipman.	550	-9
Ippon Steel	127	-8
Ippon Soda	470	+1
Ippon Motor	548	+10
Isshin Flour	395	-1
Isshin Steel	395	-1
Ishikawa	400	-1
YOMUKA	282	-2
Yoshida	521	-5
Orient	1,070	-10
Onoe	1,980	-
Onoda	368	-1
Osaka	559	-1
Osaka Elec.	559	-1
Osaka Gas	295	-2
Osaka Prefab	710	-
Harp	555	-2
Osaka Ship	915	-
Osaka Steel	3,200	+40
Osaka Wire	435	-5
Osaka Marine	375	-1
Ishii Denryo	740	+10
Ishii Corp.	205	-8
Ishii Pharma.	205	-13
Ishida	525	-9
Kada	2,380	+20
Kihm	915	-
Kokubu Oil	1,070	-10
S. S.	581	-
Kio Marina	554	+2
Kyo Elec. Wrg.	118	-
Kyo Gas	511	-5
Kyo Sanryo	511	-5
Kishida	465	-5
Kyo Corp.	221	-1
Kyo Delica	465	-5
Kyo Motor	248	-1
Kobe	770	+5
Kobe Motor	770	+5
Kawada	275	-2
Kawa Edge	325	-1

July 29	Price and	+ or
West End Blvd.	4.00	-.04
St. Bridge	3.62	-.04
St. & West	5.48	
St. & West	5.48	-.06
St. & West	2.43	
St. & West	12.16	-.08
St. & West	5.50	
St. & West	12.16	
St. & West	2.16	+.04
St. & West	2.38	-.04
St. & West	4.48	+.02

### JTH AFRICA.

July 29	Price and	+ or
Room	5.60	
to G.L.	9.60	-.18
to G.L.	18.75	+.01
to G.L.	1.15	-.05
to G.L.	21.50	
to G.L.	48.00	+.05
to G.L.	5.55	
to G.L.	1.15	+.05
to G.L.	1.15	
to G.L.	30.75	+.075
to G.L.	78.00	
to G.L.	94.75	
to G.L.	5.55	+.15
to G.L.	6.75	-.15
to G.L.	39.25	
to G.L.	6.65	+.06
to G.L.	6.65	+.06
to G.L.	3.65	
to G.L.	1.05	+.05
to G.L.	1.05	+.05
to G.L.	6.75	-.05
to G.L.	6.75	-.05
to G.L.	2.35	+.025
to G.L.	13.5	+.25
to G.L.	2.5	
to G.L.	16.00	
to G.L.	5.60	

**Special Rate US\$9.50;  
Discount of 24%.**

**ZUL**

July 23	Price Cruz.	+ or -
Brazil	9.25	-0.05
Brazil	4.26	-0.04
Argentina	5.70	-0.10
Argentina	2.75	-0.08
Brazil PE	4.25	-0.05
Colombia	15.37	+0.02
Costa Rica	7.00	
El Salvador	21.50	-0.20

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10



Alan Friedman reports on the drug store chains. Will Britain follow the U.S. trend?

# A prescription to fight the recession

"EVERYONE PROFITS when everyone participates." This is the motto emblazoned in the Fifth Avenue offices of Associated Chain Drug Stores (ACDS), one of the key organisations in the rapid growth of chain "drug stores" retailing in the United States.

UK retailers have a number of lessons to learn from their American counterparts and one of them is the careful use of the sometimes scorned "bigger is better" concept in the chemist group sector. There are signs that some, at least, are catching on.

Managers of British DIY retailing chains have been among the most active to follow U.S. and Continental attitudes and pioneer the large, edge-of-town "superstores" which attract a middle-range clientele and feature high volume turnover.

It may well be that the next sector of UK retailing to take a leaf out of the U.S. experience will be the chemist shop business. Despite important differences in UK and U.S. style, there is still a good deal to be learned from the extraordinary growth of chain drug stores in North America.

The growth of chain drug stores—a chain is defined as more than four outlets under common ownership—has been fuelled by a number of management and marketing associations such as ACDS. These organisations specialise in the growth of the chemist shop sector.

As membership organisations they have literally grown up with the business. Although they were founded in the 1920s, the "take-off" period for U.S. drug stores came after the Second World War and particularly in the 1950s and 1960s.

All the time, national strategy groups such as ACDS and its competitor, Affiliated Drug Stores (ADS), were working directly with the retailing chains to win over the American consumer. The chains have almost outgrown the need for outside help, providing an impressive case for the benefits of joint strategy on a major scale.

Many of the 15,000 outlets in the U.S. chain drug store field employ co-operative manufacturing arrangements and co-ordinate advertising and discounting campaigns. So synchronised is their approach that a chain store in Utah may have the same floor plan as a related branch in Florida.

These elements of large-scale planning have paid off handsomely. Last year, chain stores reaped 56 per cent of U.S. drug store sales of \$26.7bn (£11.5bn). Large out-



A chain drug store in a Chicago suburb; (right) Philip Weinstein, head of Affiliated Drug Stores



lets with a broad merchandise mix have become widespread. Drug stores now sell products ranging from artificial Christmas trees to hosiery and electronic video games as well as making up the traditional prescription.

The latest store innovation has been the walk-in, walk-out dental surgery. In order to lure customers, the chain store managers and their national associates constantly concoct new gimmicks.

Last year's total sales of the U.S. drug store chains—at \$14.96bn (£6.6bn)—were impressive. Total net profits came to \$357m (£153.7m). Average sales per store totalled just under \$1m and the 676 different drug store multiple groups owned more than 107m sq ft of selling space last year.

ACDS was founded in 1926 by a group of chain drug store owners in order to keep abreast of the latest trends in prescription medicines and related products. This was in the golden age of corner pharmacies—a period marked by the privately-owned neighbourhood shop which sold medicines, related goods and probably had a long counter called a "soda fountain" around which young people would congregate to gossip and drink "egg creams" or milkshakes.

Those days are just about over. The present-day American drug store is a large combination department store with a chemist's desk located at the rear. To get to the prescription counter the customer must walk past a labyrinth of clothing and food racks, DIY and electronic sections, health and beauty aids, book and periodical stands and

more. A visit to the local drug store may turn into an expensive adventure in impulse shopping.

According to Mr. Robert Roth of U.S. stockbrokers Merrill Lynch, the drug store chains' merchandise mix now consists of "low-priced high-consumption basics that are relatively unaffected by the economic dislocations that can adversely affect other retailers."

Mr. Roth also notes that the historic ability of drug chains to identify fast-growing merchandise categories and to assimilate them successfully into their merchandise mixes has bolstered volume growth rates.

Mr. Ira Shain is the president of Associated Chain Drug Stores which serves 5,300 member stores in all 50 states. The modern chain drug store developed as a result of price wars which started as long ago as the early 1950s, he says.

"The concept of price wars became so popular that some of the smaller drug stores printed signs which read 'cut-price goods' and they started hanging them above their names," Mr. Shain says. Some stores, says Mr. Shain, then branched out into houseware, toys, gift items, stationery and automotive supplies.

By the late 1950s small stores were being gobbled up by the new and larger "super drug stores." Whereas the average independent drug store looks to prescriptions for about 50 to 60 per cent of total business, the chain drug store can survive with as little as just 18 to 20 per cent of turnover derived from this source, he says.

"It was all part of what we now accept as one-stop shop-

ping," says Mr. Shain. "The speedy growth of American suburbia in the 1960s also contributed to the trend."

Mr. Shain also sees ACDS as an information service for chains across the country. "We are the eyes and ears of far-away store groups. We put together group purchases for hundreds of stores across America and co-ordinate prices by going to manufacturers and producing under a private label."

Although the net worth of ACDS is just \$500,000, its team of "merchandise counsellors" serves 31 different chains with billions of dollars of business. These chains, through the issue of nominal shares, collectively own ACDS.

Among the chains within ACDS are some of America's most successful groups. The Jack Eckerd Drug Company started only 30 years ago, but recently added its 1,000th store. Last year the company reached the \$1.3bn mark in sales and achieved \$60m in earnings, both drug-store sector records.

Mr. Bud Perfit, senior vice-president of Eckerd, says that his group employs a buying staff of more than 100, but that membership in the New York-based ACDS is "a good investment. It costs us just \$4,200 each year and we think it helps us to keep aware of what key vendors in New York are up to."

The Eckerd group is a publicly quoted company with shares on the New York Stock Exchange.

Mr. Philip Weinstein has been president of Affiliated Drug Stores for the past four years. His member chains, of which there are 70, account for around

2,000 stores, each between 8,000 and 10,000 sq ft in size.

Mr. Weinstein concentrates on "special deals" for his nationwide group. He cites examples such as Christmas plants with plastic ornaments and "funny Easter candy" as successful ventures in drug-store marketing.

But even with package deals and private labels, Mr. Weinstein admits that the trend to larger and larger stores is causing headaches. "It's getting tougher as chains merge with each other. We lose a member each time this happens," he says.

But echoing the words of most industry analysts, Mr. Weinstein observes that although drug chains are not recession-proof, they are recession-resistant. "People will always have to buy some of our products. They are staple items."

He adds that when money is short, customers may even go down market from department stores and come to a chain drug store to purchase a television set or music centre. "We offer the advantage of constantly cut prices," he claims.

Service groups such as ACDS and ADS act as a back-up for some major chains. Says one chain store chief executive: "They keep us on our toes. They supplement our own buying staff."

The high point for both groups is a twice-yearly exhibitors' show, held either in New York or Chicago. At these gatherings, dozens of manufacturers pay fees for the chance to sell a deal to the drug store chains. The revenue from these manufacturers helps to meet

the operating expenses of ACDS and ADS.

In Britain, with the U.S. experience clearly in mind, Boots has started to experiment with larger (40,000 to 50,000 sq ft) outlets, although not in the London area. Today, its 62 largest stores account for around a third of selling space out of more than 1,100 stores around the country.

Boots, which has a dominant market share, toyed with a more serious plunge into the department stores business in 1973-1974 when it bid £225m for the House of Fraser group. But it withdrew before the deal was vetoed by the Monopolies Commission. At the time, Boots saw the potential acquisition as complementary to its chain business.

On a much smaller scale, a company called Superdrug has shown that there is scope for bringing the "drug store" concept to the UK. Founded in 1967, it is a subsidiary of Rite-Aid, a U.S. chain. Last year more than 100 UK outlets produced a turnover of £40m.

The Superdrug chain does not make up prescriptions, and the emphasis is upon fast-moving toiletries and related items. Some industry analysts see Superdrug as a minor thorn in the side of Boots.

Mr. Keith Ackroyd, a director of Boots, believes there are too many social and cultural differences from the U.S. for any radical change in the British retailing style. He stresses the difference between American drug stores and British chemist shops.

Above all, he suggests that the High Street concept is very much a British approach, not easily changed. The Americans, says Mr. Ackroyd, have abandoned the city centre.

"We try to suit our business to the local community, adding a range of merchandise beyond pharmacy items in gradual stages. As the shopping group increases in size, we will expand in size and create more of a department store."

This highlights at least one major difference in retailing philosophy. The American chain drug store entrepreneurs appear to achieve more rapid growth by constantly changing their merchandise mix and by a consciously diversified approach. However, the trend in Britain is towards some of the more ambitious techniques of the U.S. scene. With out-of-town retailing, centred on the chain drug store, there may yet be lessons to be learned in the UK.

CROSBY  
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INTERIORS  
LIMITED



	1980	1979
Sales	£10,618,876	£10,051,133
Group Profit (after tax and extraordinary income)	£1,345,003	£762,134
Capital & Reserves	£4,737,184	£3,540,141
Earnings per ordinary 10p share	6.7p	6.7p
Final Dividend per ordinary share	0.63p	0.55p
Making a total for the year of	0.87p	0.78958p

The Company has announced a Scrip Issue of one new ordinary share for every one ordinary share held as at 27th June, 1980. Annual Report available from Wilmore House, Wilmore Lane, Widnes, Cheshire WA8 9UY.

BARLOW HOLDINGS  
LIMITED

RESULTS FOR 1979

Earnings before tax—	
Tropical Agriculture	£2,742,762
Investment Income	£1,232,678
Dividends 3p per 10p share	£1,411,213

## OUTLOOK

The chairman J. K. BARLOW expects agricultural profits may be lower in 1980 and that investment income should continue to improve.

The report and accounts were adopted at the annual general meeting held on 29th July 1980.

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1212

1979-80	Company	Price	Change	Gross Div (%)	Yield	P/E
High	53 Airsprung	22	-1	6.7	12.6	3.11
Low	50 22 Armitage and Rhodes	22	-1	3.5	17.3	1.47
	153 628 Barton Hall	153	+3	8.7	6.2	5.81
	100 75 County Cars 10.7% Pt.	75	-	15.3	20.4	-
	101 63 Deborah Ord.	97	+1	5.0	5.2	10.7
	125 88 Frank Horsell	120	+2	7.9	6.5	3.81
	129 73 Frederick Parker	73	-	11.0	15.1	3.21
	156 82 George Blair	82	-2	16.5	17.9	-1
	84 45 Jackson Group	84	-	8.0	7.1	3.27
	153 103 James Burrough	119	-	7.3	6.8	9.8
	232 175 Torley	222	+6	31.3	10.8	-1
	34 114 Twinklark Ord.	13	-0.4	15.1	6.8	3.81
	58 70 Twinklark 15% US	88	+6	15.0	17.0	-1
	58 23 Unilock Holdings	49	-	3.0	6.1	7.5
	50 45 Unilock Holdings New	49	+2	-	-	7.4
	99 42 Walter Alexander	97	+1	5.7	5.9	5.4
	228 136 W. S. Yates	237ad	+2	12.1	5.1	3.91

†Accounts prepared under provisions of SSAP 15.

Brunner, Meier und Rath  
an der Stadt  
Frankfurt

Handelsbank und Bank

Frankfurter Bank

Concessions Aktiende

Handelsbank und Bank

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Frankfurter Bank

1854 Frankfurter Bank was established on April 11, 1854. It ranked among the top three note issuing houses and was one of the leading commercial banks in its region. The Bank merged in 1970 with Berliner Handels-Gesellschaft to form BHF-BANK.

1856 Berliner Handels-Gesellschaft was founded on July 2, 1856. Under the stewardship of Carl Fürstenberg, one of the most distinguished financiers of his time, this Bank developed into one of Germany's foremost merchant banks.

# 125 Years of Solid Achievement

Today BHF-BANK is among the top ten private banks in Germany with a Group business volume of DM 21 billion, up DM 1.1 billion from the previous year. The Bank looks back on twelve decades of solid growth in banking with the two founder institutions having contributed broad based expertise in all areas of commercial and investment banking.

1979 was a year of continued progress for the Bank with an increased volume of international commercial business as well as considerable expansion in worldwide financing. New offices were opened in Los Angeles, Bogotá, Rio de Janeiro and Madrid. The branches in New York and Cayman as well as the Luxembourg subsidiary, BHF-BANK International, substantially contributed to the further strengthening of the Bank's global activities. In international and domestic underwriting BHF-BANK ranked again among Germany's major investment houses, lead or co-managing numerous issues and participating in most quality offerings.

## Highlights from the Consolidated Balance Sheet as at December 31, 1979

	(in million DM)
Business volume	20,975
Total deposits	10,828
Volume of loans	15,796
Capital and reserves	500
Balance sheet total	18,403

The complete Annual Report in German and summarized Annual Reports in English, French and Spanish are available on request.

Managing Partners: Dr. Wolfgang Graebner, Herbert H. Jacobi, Dr. Hans Christian Schroeder, Holtenhorst, Klaus Subjatzki, Rüdiger v. Tresckow

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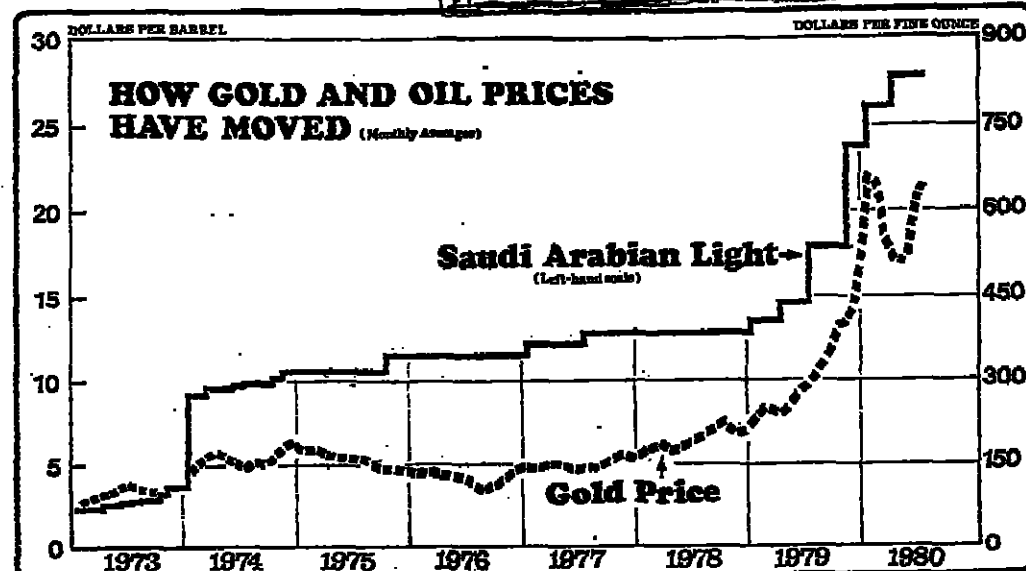
## FINANCIAL TIMES SURVEY

Wednesday July 30 1980

سكان الاحل

## GOLD

The buoyancy of the gold price has produced some intriguing sequels on the world financial circuit. Producer countries — including Russia — have benefited, as well as Western central banks and other investing institutions. Gold has also regained a role — though less formal — in monetary thinking.



## Bond of common interest

by David Marsh

THE TREBLING of the gold price since the end of 1978 has added a strong financial link among the most diverse of political bedfellows.

Ironically, the strand of common self-interest in the bullion price that joins the governments in Washington, Moscow, Pretoria and Bonn has been strengthened at a time of rising political tension. For it is this bond of East-West pressure — which came to a head over the New Year with the Soviet intervention in Afghanistan — that has provided a major driving force behind the world-wide flight into gold.

Gold is now trading at roughly \$200 below the peak of around \$350 per ounce reached in early January. But compared with the former official price of \$35 per ounce this still represents an 18-fold increase during the past nine years, a period when the general level of prices in the West has increased by only about 125 per cent.

The rapid rise in the gold price over the last 18 months has clearly been of great benefit to those private investors and

institutions fortunate or farsighted enough to have climbed aboard the bullion bandwagon at an early stage. (It is one of the many paradoxes about gold, however, that people who bought the metal believing in the imminence of World War III are presumably too frightened to enjoy their profits.)

But the biggest beneficiaries have undoubtedly been the main supplying countries, South Africa and the Soviet Union, along with the large official holders of monetary gold among Western central banks and governments, led by the U.S. and West Germany.

The rise has had large-scale economic and strategic consequences for the two gold-mining nations at opposite ends of the international political spectrum. And among the industrialised countries which own 85 per cent of the world's monetary gold, the big increase in the value of their reserves has not only provided them with an important financial buffer against the debilitating effects of the doubling of oil prices during the past year.

It has also led to a *de facto* resurgence of the importance of the metal in the international monetary system — although in a more informal role than the one it enjoyed before the ending of the gold/dollar link in 1971. The effective resurrection of the metal's monetary importance, after a decade of efforts at "demonetisation," has been bolstered by its mobilisation as part of the financing mechanism within the European Monetary System.

It has also been helped along by the proposal to use it to support the International Monetary Fund's scheme for a substitution account to aid the

donor (although since April the whole plan has been put on ice). Gold's backdoor remonetisation within the EMS was essentially decided when the technical details of the scheme were worked out by the EEC at the end of 1978. This was the time, a year before the Afghanistan crisis, that the gold price really started to take off. Some participants in the bullion market say that the signal of a changing official attitude towards gold was the main factor behind the price rise last year.

## Intriguing

It has been particularly intriguing during recent months to read words of approval by economic commentators in various Soviet journals about the use of gold within the EMS. Moscow after all has a large vested interest in the higher price.

Certainly the Western central banks are now broadcasting that they have no doubts about the usefulness of their gold reserves — and this has had one important direct effect on the market.

Many developing countries, particularly from OPEC, are trying to emulate the industrialised nations by building up their gold stocks. There is a clear link between the oil price (and the rise of the OPEC surplus) and the price of gold. Even the bullion market's softness during the past few weeks has been accompanied by a drop in oil prices on the spot market.

Purchases both by Middle East oil producers and by other countries in Latin America and South East Asia have been a constant feature on the bullion

market during the past year or so. According to dealers, such purchases — especially when made at times when supplies have been thin — have contributed significantly to pushing up the price.

The clearest example of the economic effects of the golden windfall has been provided by South Africa. With bullion sales accounting for almost 50 per cent of its total export revenue, the rising price has enabled the Republic to refate its economy in the teeth of an international recession. Real growth of more than 5 per cent is forecast for this year — and this time (unlike during the price surge in 1975) the South Africans are budgeting conservatively.

The Soviet Government's finances have also plainly received a considerable boost. The spurt in gold has been accompanied by big price rises for oil and the other precious metals that the Russians sell to the West. If the U.S. or any other country had been tempted to apply financial or credit sanctions in the wake of the Afghan invasion, Moscow could have shrugged off the threat with no trouble at all.

In fact, one of the riddles of the gold market this year has been that the Russians so far appear not to have directly capitalised on the price increase. No Soviet gold appears to have been sold to the Zurich banks — the main sales channel to the West — since the end of last year.

This probably reflects the healthy state of Moscow's foreign exchange reserves — and its belief that the market may yield even better prices if sales are withheld for a time. There have also however been rumours — impossible to verify — that the Soviets may have

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been carrying out direct sales to oil-producing countries.

Similar reports have surfaced about gold-for-oil deals between South Africa and OPEC — and Pretoria certainly needs oil more than Moscow. Whether or not such transactions have taken place, it is evident that South Africa at any rate is diversifying its sales outlets in Europe and the U.S. — and has switched to a policy of withholding some gold from the market — in order to reap the highest prices from the golden harvest.

Among the main industrial countries, reaction to the price surge has been more ambivalent. The U.S., for example, as the largest gold holder (with about 8,200 tonnes of the metal, or about one quarter of total reserves) has undoubtedly been pleased to see a significant strengthening of its reserve base. At one time during the peak price surge at the start of the year, the value of the U.S. Treasury's gold holdings was equal to the total U.S. debt to foreigners.

Perception of this was one factor bolstering confidence in the dollar in the earlier part of the year — a colossal irony considering the U.S. Treasury's

leading role as a proponent of demonetisation since 1971.

West Germany (in contrast to France and some other Continental countries) tended to follow the U.S. line on gold in the 1960s and 70s. Like the U.S. it is one of the few countries that still values its reserves on the basis of the old official price.

But there have been signs of a perceptible shift in attitude in the Federal Republic. For one thing, the Bundesbank failed to mount significant opposition to the French-led drive to give the metal a key role in the EMS.

Additionally, during recent months when the D-Mark has come under uncharacteristic pressure on the foreign exchanges, the Bundesbank's governor, Herr Karl Otto Poehl has not been slow to point out that the currency has one important factor going for it — the size of Germany's gold reserves, the second largest in the world.

## Unwelcome

But at the same time, there have been fears in the U.S. and Germany, as well as in other countries, that the scale of the price rise could have unwelcome consequences, too.

There has been relief that the price movements have not led to unrest on the foreign exchanges — indeed, the link between the gold price and currency fluctuations seems well and truly to have been severed. But central bankers have been discomfited by the thought that the world-wide flight into gold could damage anti-inflation policies.

The rapid increases in the price of gold and other precious metals at the turn of the year

in fact gave a significant boost to retail price indices in many countries. And the big increase in liquidity resulting from the effects of the price rise on gold-owning countries' reserves could in future tempt some governments to depart from their present "sound money" policies aimed at economic stability.

This has not happened yet. Belgium, the only country within the EEC so far to have profited from the gold mobilisation mechanism, is still pursuing very tough monetary policies, with interest rates in real terms among the highest in the world.

But there is no doubt that the big rise in gold reserves has increased the financing capacity of countries like France and Italy. And this could enable their governments to stave off economic "adjustment" measures if the franc or the lira got into trouble on the exchange markets.

Outside the EMS, there have been other clear examples of a resurgence of the metal's monetary importance. Portugal revalued its gold reserves in early May, using the Mon's share of the proceeds to write off public sector debt held by the central bank.

At the start of the year Canada sold off part of its official gold holdings to help repay official foreign debt. And even in the UK, the big increase in the official reserves over the last year, largely thanks to the revaluation of the gold reserves, was put forward by the UK Treasury this month as one of the main reasons justifying early repayment of a large loan raised by the Government from foreign banks.

A clear sign that the monetary authorities have mixed

feelings about the effects of the rising gold price is that they have so far taken no direct action to try to control the market. In January, the central banks of the main industrialised countries briefly discussed the possibility of starting a programme of concerted sales to brake the rise.

But although both the Swiss and the Dutch authorities have indicated even in recent months that they would like to try such sales, the plan was turned down by a resounding majority.

## Underpin

The fact that the central banks seem unlikely to unload gold in large quantities — together with the halt for the time being of auctions by the IMF and U.S. Treasury — has helped underpin the market.

Mr. Paul Volcker, chairman of the U.S. Federal Reserve, certainly has a good point when he says that the extreme volatility of the bullion price prevents it from regaining any central role in the monetary system.

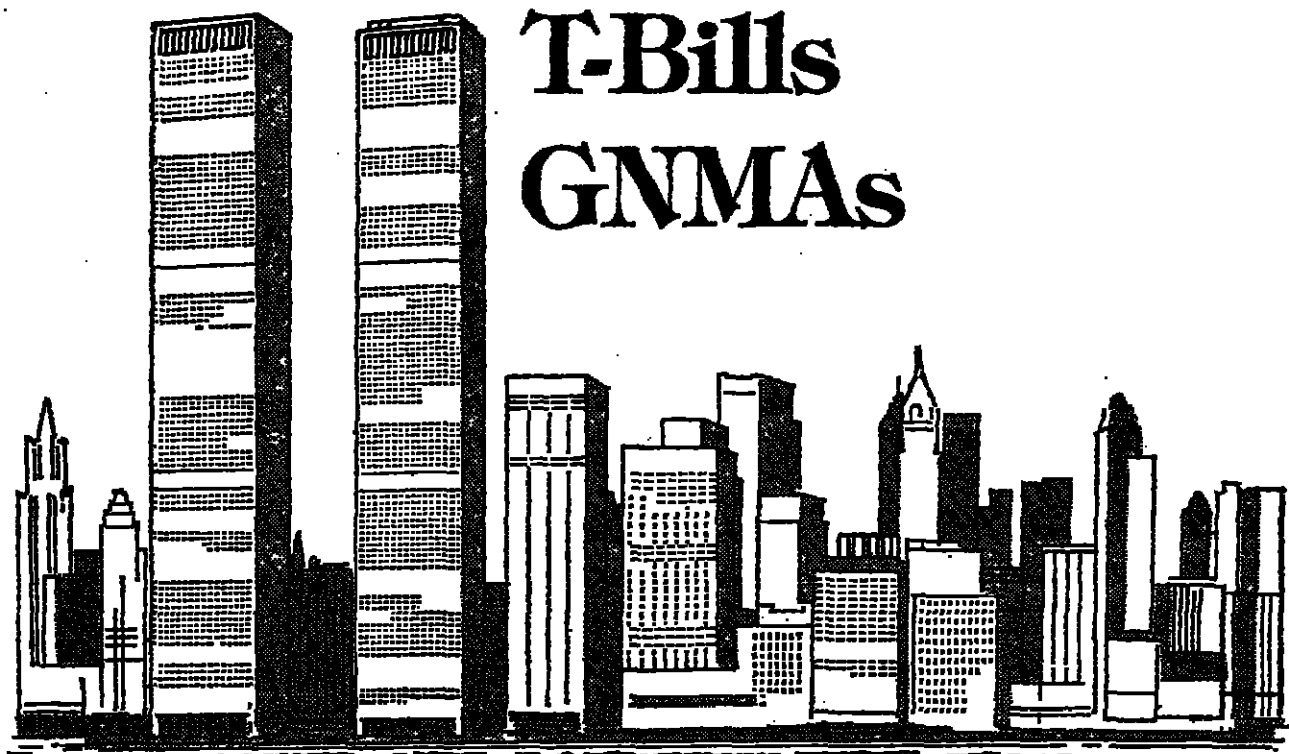
However, as M. René Larré, general manager of the central bankers' bank, the Bank for International Settlements, has put it: "Gold may have no official status. But it is not unloved."

After all, central bankers — like anyone else — should be judged by action, not words. And their refusal to resurrect the Gold Pool arrangements of the 1960s by undertaking to sell off part of their stocks of bullion might indicate that even the ultimate guardians of the world's currencies are not entirely free from doubts about the long-term value of paper money.

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## GOLD II

## Supply outlook this decade



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THERE ARE slight differences of opinion about the amount of gold supplied to the world's free markets last year. There are plenty of data on the production of the major producers and the level of official sales, but for smaller countries and in particular the Soviet Union, the analysts have to rely to a large degree on guesswork.

The South African Chamber of Mines estimates that the world's gold supply fell by 1.5 per cent to 1,715 tonnes in 1979. Consolidated Gold Fields, by contrast, believes that it increased marginally to 1,765 tonnes. Meanwhile, Anglo American Corporation, the world's biggest gold producer, estimates that it fell marginally to 1,707 tonnes.

Despite the differences of a few tonnes here and there, the analysts are generally agreed that the world's gold supply was broadly unchanged last year. This is in contrast to the last few years, when it has been increasing steadily.

In 1975 gold supplies reached a recently low point of just over 1,100 tonnes. Since then they have increased by over half and the key question for the industry now is what will happen to supplies over the next decade.

South African production last year was marginally down at 703 tonnes. The U.S. Treasury nearly trebled its sales to 365 tonnes but the IMF sales slipped by 14 tonnes to 170 tonnes. The third factor in the equation, which is often the most unpredictable, is the level of Soviet sales.

Once again there are slight differences in estimates but all the analysts are agreed that Soviet sales dropped sharply from about 410 tonnes in 1978 to around 220 tonnes last year—the lowest level since 1973. Clever marketing by the Russians enabled them to meet their foreign exchange targets without having to sell anywhere near as much gold as in the previous year.

In the current year gold supplies to the free market are going to be significantly curtailed—a sharp contrast to the rising trend in recent years. In its latest annual report the giant Anglo American group sketches out its thoughts on the short-term outlook for gold supply as follows:

The U.S. Treasury, with the stated policy of selling gold only to protect a weak dollar, is unlikely to hold further auctions for the time being. Further

IMF sales after the completion of the current programme in May are improbable pending resolution of the structure and mechanics of its proposed substitution account . . .

While the political considerations affecting the supply of gold are very important in the short term, over the long term the rising price of gold will have an equally important impact.

To an outsider higher gold prices would be expected to lead to higher gold production but in a market dominated by South Africa and the Soviet Union this does not always happen. Gold is a scarce commodity and, paradoxically, higher prices often lead to lower supplies as the producers harbour their reserves. The Soviet Union's recent marketing strategy amply reflects this philosophy.

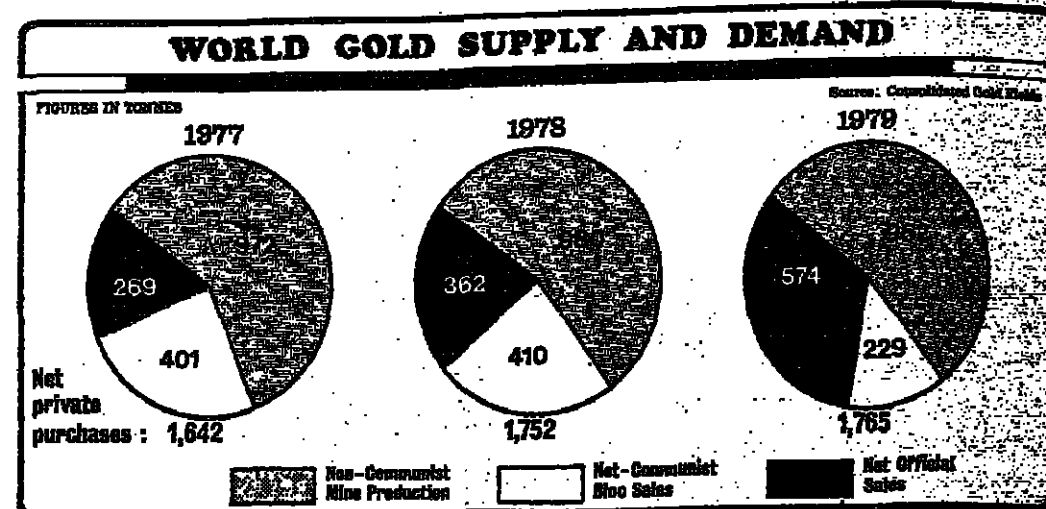
To get a proper feeling for the outlook for gold supplies over the long term, it is necessary to identify how much of the metal is in existence. It is often overlooked that since it is virtually indestructible most of the 100,000 tonnes or so of gold that has been mined since 4000 BC are still in existence.

## Proverbial

Some of it will be buried in the proverbial hole in the ground. Some will be tied up in people's teeth or electronic gadgets and hence locked up. Nevertheless, a large amount of the gold in existence could potentially be supplied to the market if the price were right. Of this total, central banks and the IMF own some 35,000 tonnes. This is equal to 35 years' annual free world mine production and worth around \$690bn at today's prices.

Aside from the amount of gold that has been stockpiled or hoarded, the other key factor in any analysis of future gold supply is the size of the gold reserves in the ground. This is complicated by the fact that relatively little is known about the extent of the Soviet and Chinese underground reserves.

The U.S. Bureau of Mines has put the world resources of gold at 1.9bn ounces, of which South Africa has roughly half. The South African Minerals



Bureau has estimated that South Africa's gold reserves amount to 16,500 tonnes, around the same order of magnitude as that of the U.S. Bureau of Mines.

These estimates are conservative and much depends on the price of gold and its relationship to mining costs. At certain price levels even the lowest grade ore can be exploited, which will greatly increase reserves.

At the moment South African production is expected to creep up from its current level of around 700 tonnes per annum to around 750 tonnes by 1985, according to the South African Chamber of Mines. By contrast, Dr. Dirk Neethling of the South African Department of Mineral and Energy Affairs, recently forecast that output will drop to 676 tonnes by 1985.

Beyond 1985 there is an even greater divergence of opinion about the gold supply of the world's biggest producer. Under one set of assumptions the Chamber of Mines recently forecast that South African gold output would stay at current levels until 1987 and after that would fall away to 350 tonnes per annum by the end of the century—half of current output levels.

Clearly, any analysis of South Africa's future supply potential depends very much on one's assumptions about future price levels and even then there is considerable uncertainty.

In a recent bulletin the Chamber of Mines analysed how higher gold prices had affected production over the last few years. Taking 1972 as the base date it indexed the gold price, gold production, the grade of ore mined and the tonnes milled.

Over the period the gold price has more than quadrupled, but output has dropped by about 25 per cent and the tonnes of rock milled have increased by 16 per cent.

As prices rise, the industry mines lower grade ore. Over the eight-year period, the average grade of ore mined has fallen by 40 per cent to 8.23 grammes per tonne.

## Soaring

Another factor which complicates the supply equation is the soaring cost of establishing a new mine. Companies have to decide whether the capital operating costs are going to rise faster than the price of gold.

Construction of Eldorado, South Africa's latest producer, was started in 1975 and cost around \$240m by the time the first bar of gold was produced. When it reaches its milling level of 135,000 tonnes per month, the total cost will have risen to around \$340m. At current prices a similar mine, if built today would cost around \$550m. While South Africa is likely to remain the world's major gold

producer (but not necessarily supplier), for the foreseeable future it will be interesting to see how the higher gold prices affect production in other parts of the world.

In the Soviet Union, which controls the biggest gold mine in the world at Murunmuk, Consolidated Gold Fields estimates that production is running at between 280 tonnes and 300 tonnes per annum. As it becomes obliged to import more oil during the 1980s the Soviet Union may decide to increase its gold production so that it can earn more foreign exchange.

China is another intriguing area of potential gold supply, about which little is known. Mr. Michael Beckett, an executive director of Consolidated Gold Fields, recently estimated at a Canadian conference that China was producing between 30 and 60 tonnes per annum.

However, no one is sure and on closer inspection the analysts might have to revise their supply estimates radically as they have had to do with Brazil, which is now producing two thirds more gold than was earlier thought.

Zimbabwe is another area which could possibly expand its gold supply. According to the U.S. Bureau of Mines, it has gold reserves of 15m-20m ounces.

William Hall

## Appeal of futures market firmly established

GOLD FUTURES provide investors with a low-cost means of investing in bullion. Whereas a spot purchase involves the immediate outlay of the full price of the metal, together with storage and insurance charges over the period for which the gold is held, the cost to the futures investor is confined to the margin together with a small turnaround commission.

It is thus not surprising that the futures market for gold in the United States has blossomed since its inception at the end of 1974, when it became legal for American citizens to own gold.

The United States is in fact the main centre for gold futures trading, though futures contracts may also be purchased on the Winnipeg Exchange as well as in Singapore and Sydney (where trading is restricted to Australian citizens). Hong Kong announced plans early this year for the establishment of a gold futures contract in the colony, and plans for such a venture have also been discussed in London.

As with other commodity markets, the gold futures market fulfils a useful function for producers and users of physical metal. Jewellers, for example, can hedge against a future rise in the price of bullion by buying forward, while producers can hedge against price falls by selling future output forward.

## Guarantee

In this connection it is interesting to note that South Africa has recently agreed to allow mining companies to hedge on the bullion futures market. This would not affect the sale of the country's physical gold production, which is handled by the South African central bank, but it would allow companies with high mining costs to lock into a price level high enough to guarantee a profit on production that would otherwise be marginal.

The main players on the futures markets remain, however, investors who attempt to make a turn out of price movements in the metal without actually owning any of it themselves. It has been estimated that perhaps only about 3 per cent of gold futures contracts actually lead to physical delivery of the metal at maturity.

As might be expected with a commodity as volatile in price as gold, the profits that can be made on the futures market are enormous. So, of course, are the pitfalls, and it could well be argued that the separation of the futures and physical market is an additional risk for futures investors in the gold market.

While the major centre for futures trading is in North America, the physical market is

heavily concentrated in Europe. The world's largest producer South Africa, sells its bullion mainly through London and Zurich, while the Soviet Union, which has at times been a very major seller, sells basically through the Zurich market.

This gives banks in these centres a much more complete picture of the actual supply/demand position in the physical market than is normally available to an investor on the other side of the Atlantic. Indeed,

some Swiss bankers have traditionally been inclined to scoff at those who "trade bits of paper" on the futures markets.

But Swiss banks have also been known to participate in the futures markets, and despite the pitfalls it is quite clear that these markets are now very well established.

Turnover on the International Metal Market, for example, which was only 408,968 contracts in the first full year of trading in 1975, rose last year

to a record 3.8m contracts. In the first half of this year volume dipped as a result of the slide in the bullion price, but officials expect that with the renewed firmness of the metal in recent weeks volume should pick up again in the second half.

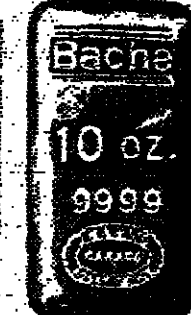
Other exchanges in the U.S. which handle gold futures are the Chicago Board of Trade, the New York Comex and the New York Mercantile Exchange.

Peter Montagnon

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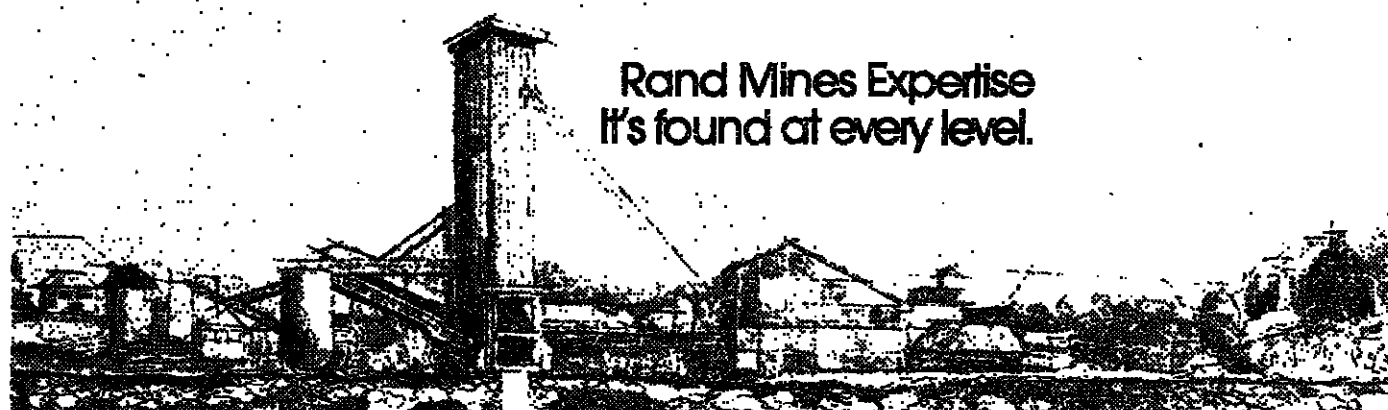
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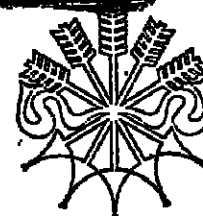
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to be tied up in schemes which allow reserves to be effectively mobilised without being physically sold, the market has adjusted itself to the likelihood that gold sales, either by the IMF or by the central banks themselves, will be fairly restrained over the next few years.

Apart from their possible employment in a modified version of the substitution account, they may be used to finance interest rate subsidies for IME

# de

BULLION COINS are possibly the simplest and certainly the most popular medium for gold-hungry private investors. They

are easy to store and mostly easy to trade and in this country purchasers of legal tender coins (such as UK sovereigns, South African kruggerands and Canadian Maple Leafs) do not have to pay VAT. Investors

Gold coins, moreover, tend to come in units sufficiently low-priced to appeal to the man in the street. Sovereigns, for instance, which contain a quarter of an ounce troy of gold, have been trading recently at around £65-£70, though it is perhaps ironic to note that the price of the bullion price

gold last year reflects the lower proportion of South Africa's gold output which went into coin manufacture.

The major krugerrand markets recently have been the U.S. and Germany—the surged in sales towards the end of last year was largely attributable to the West German Government's announcement that VAT would be payable there on krugerrand transactions in 1980, another reason why sales so far this year have been disappointing.

The UK's record year for coin production includes 51 metric tonnes used to strike ordinary sovereigns (known as "lizzies") and a further seven tonnes used to "proof" sovereigns. The limited issue of 50,000 1979 "proof" sovereigns were quickly swallowed up by eager investors and numismatists and the 1980 issue of 100,000 coins is currently doing well. The market in some numismatic coins, which obviously tend to command a premium over their value of their intrinsic gold content, can be thin, but as a rule prices are less volatile than those of the mass-produced "lizzies".

UK sovereigns are struck by the Royal Mint at its premises in Llantrisant, South Wales, with gold provided from the UK's reserves by the Bank of England. The Royal Mint, in this context simply acts as the manufacturer and is paid a undisclosed fee for its services.

The Bank of England, meanwhile, distributes the coins through the London bullion houses, taking

The krugerrand has its origins in the attempts to demonetise gold from the time of the Bretton Woods Agreement in 1944. These encouraged the Chamber of Mines of South Africa, which represents the collective interests of the country's mining industry, to find new ways of marketing gold in a form which once sold would fetch the metal off the market.

keep the auction on track. Although no one was recognized at the time, the striking of 7,000 one ounce medallions which were sold at the South African Mint. The concept of the one ounce coin—initially called the Trojan—emphasize that it contained one Troy ounce of gold—did not surface until 1964 and the “kruggerand,” a name derived to replace the unsatisfactory “Trojan,” was finally born in 1966. The coins struck between 1967 and 1969 were prooflike high quality coins sold at high prices to coin collectors, but the number of disappointing sales led the decision was taken in 1970 to mint larger quantities non-numismatic items, available to the wider public at a substantial premium.

The success of the krugerrand marketing effort over the last ten years is evident in the sales figures. In 1970 total krugerrand sales amounted to 211,018 climbing steadily from then on to 4.8m in 1975. In 1976 and 1977, as the world recovered from the traumatic recession, the figures slipped back before reaching a peak of 6m in 1978. The 4.94m com-

Gold hoarding in the USSR, however, is anyway not as strong as it is elsewhere in the world, according to Michael Marsh of bullion dealers Johnson Matthey. "In Continental countries, where there is a history of invasions and incursions, people are quite used to stuffing coins and gold bars under their mattress. In this country there is also a great deal of ignorance about commodities, which are considered 'speculative,' whereas stocks and shares are thought to be 'safe.'"

According to Mr. David Potts, the gold analyst at Consolidated Gold Fields, "the higher gold prices experienced so far this year make it unlikely that world coin production will exceed the total recorded for 1979." On the other hand the excitement in the gold market has been awakened investment interest in the metal and increased governments' awareness that gold coins can provide a useful source of extra revenue.

**Tim Dickson**

Already, however, some central bankers within the EEC—predictably those who do not consider that support for their currencies will be a priority over the next 12 months—have voiced doubts about the automatic way in which a rise in the gold price leads to a rise in central bank liquidity. Both the Germans and the Dutch believe that the gold link might encourage some countries whose currencies come under pressure to postpone devaluation or other adjustment measures.

The desire of Germany's Bundesbank in particular for modification of the gold valuation formula will, however, probably have to wait until the EMS proceeds to its much-awaited second stage. This is the setting up of a European Monetary Fund as a full-fledged "European central bank" to administer, among other things, the partial pooling

But it has already become clear that the establishment of the EMU—and with it the chance to reform the gold valuation formula—will be delayed until well beyond the original target date of March next year. Meanwhile most central banks in the EEC, perhaps even the stability-minded Germans—will hardly be shedding too many tears over the greatly increased value of their bullion holdings. If paper money goes on depreciating, at least Western central bankers can seek solace in the inflation-indexed gold reserve

## David Mars

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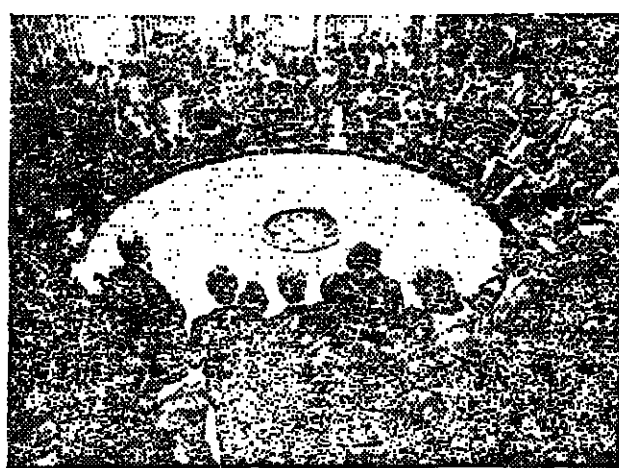
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## GOLD IV

# Trading goes on round the clock

THE MAJOR gold markets around the world have little obvious reason for their pre-eminence beyond the fact that they tend to coincide with financial centres where a concentration of funds is seeking opportunities for investment. London, Zurich and Hong Kong meet this criterion: the most obvious absentee is New York, which has only recently begun to emerge as a trading centre of importance.

Yet the presumption that gold must be traded in this or that discrete centre is growing steadily more obsolete. In the course of the past decade the gold market has become an increasingly global affair. The major trading houses are now equipped to follow the market around the world on a 24-hour basis.

The increasing prominence of gold as an investment for troubled times has also encouraged trading to develop in places like Tokyo, Singapore and Frankfurt, where wealth is very much in evidence but where there was, until recently, no tradition of gold trading.

In terms of the primary supply of gold it is only New London and Zurich which have established themselves as key centres where new gold is introduced into the system. London's position in the market is due to its traditions as a handling centre for South African gold. Indeed in the days when London was the centre of the world's monetary system and when gold was the basis of that system, handling

was the only job which London bullion firms had to do. The price was an immovable function of the Gold Standard, so there was no need for a market in the price-making sense of the word.

Between the years 1919-when, with the first crumbling of the gold standard, it became necessary to establish a "best price" for South African gold—and 1968, when the last-ditch attempt to hold to an official price collapsed, there was no rival to the London market. This was not only because all South African gold passed through London, but also because it was in London that the Western central banks, operating in the closing stages through the gold pool, tried to sustain the official price.

### Overwhelmed

Zurich's rise relative to London reflected the way in which these official market participants, who dominated the working of the London market, were overwhelmed by the pressures of speculation by the investors who dominated the one in Zurich. It was partly because of the speculative pressure expressed through Zurich that the London gold market was prompted to re-open in 1954.

Then, in 1968, when the gold market in London was closed with the collapse of the gold pool's efforts to sustain the official gold price of \$35 an ounce, Zurich staged a coup which made it the leading gold trading centre in the world.

During the two-week closure of London the big three Swiss banks seized the initiative and formed the Zurich gold pool.

By adopting a united front they were able to swing the South African gold output in their direction. In 1969 they won the right to handle the whole of the South African output by bravely offering to take all that country's new gold at what were, at times, premium prices. This investment paid off, partly because South Africa was peeved by the UK's anti-apartheid stance.

Since 1972 the Soviet Union has added to the supply of primary gold to Zurich, selling a large part of its variable annual output through the Zurich-based Wozchod Handelsbank. But in recent years it seems that Zurich's position as the focus of the supply of new gold has been somewhat diminished: first because South Africa has diverted a small proportion of its annual sale back to London—some observers say about 20 per cent—and secondly because there is a suspicion that the Soviet Union is now selling through other outlets, including direct placement with Arab investors.

Swiss bankers are reputed, nevertheless, to play an important part in selling Soviet gold, even though these sales may no longer be exclusively through the now much-publicised Wozchod.

Both the Zurich and London markets produce prices which have become established as benchmarks for the gold busi-

ness every day. In London this is the twice daily "fixing," while in Zurich there is the pool price. The difference between these two reference prices reflects the difference in character of the two markets.

The five members of the London gold market act chiefly as agents rather than principals. The fixing represents the price at which a put-through from many sellers to many buyers is arranged twice daily. It is therefore a price at which a transaction has taken place. The Zurich gold pool price—in contrast—is a market quotation with a spread between the bid and the offer prices, whose significance is that it is made by the biggest collective dealer in the gold business—the combined power of the big three Swiss banks.

Hong Kong has emerged as the major market in the East largely because it is the centre through which East Asian countries match their surplus supplies and demands and channel their overall surpluses or requirements on to the world market.

Hong Kong already has three markets and is about to get a fourth. The longest established market is the Chinese Gold and Silver Exchange which trades gold in taels (the Chinese measurement of weight) and in Hong Kong dollars. This is essentially a spot market, al-

though positions can be carried forward indefinitely on a day-to-day basis on the payment of a premium. This makes it a de facto futures market as well.

The second market is the "loco London" market. This is the market which reflects the global spread of the world's main bullion dealers. It is a spot market for gold, priced as for delivery in London, but trading eight hours ahead of the London opening.

The third Hong Kong market is the "local Comex"—an offshoot of the New York Commodity Exchange gold futures market. This is an out-of-hours market run informally by some of the big commodity trading houses which trade on the New York Comex but which have operations in Hong Kong.

### Newcomer

The newcomer, which will open shortly, is the Hong Kong Commodity Exchange's controversial gold futures market. The Government of Hong Kong is behind the scheme—hoping that it will reinforce Hong Kong's attraction as a financial centre—but there has been strong opposition from the Chinese Gold and Silver Exchange. The new market will be modelled closely on the system used in New York and will probably trade in U.S. dollars to heighten its attractions for the gold trading establishment.

New York's development as a gold trading centre began only in 1974 when U.S. citizens were given the right to hold the metal. It was characteristically American to view gold as a commodity and equally characteristic to set up a futures market in that commodity. The main U.S. futures trading centres were established in Chicago and New York. Over the last three years of violent movements in the gold price the U.S. futures market began to exert a very visible influence on the spot price. This hastened the moves of the European dealers to establish New York operations and has also provided the impetus behind plans to open a futures market in London.

The rise of the New York futures market has created a need for a parallel New York market for "loco London" gold in rather the same way that this exists in Hong Kong. It has emerged with increasing strength in the last 18 months. Republic National Bank, Aron and Philipp Brothers and major U.S. participants, with Morgan Guaranty and Citibank also showing signs of greater involvement. Four of the five members of the London gold market are also present in New York to participate.

Nicholas Colchester

## Trade demand cut by high price

IF YOU WANT to keep your dentist happy—and who doesn't?—don't regal him with an account of how your krugers have gone up in value. Above all, if gold fillings are mentioned, don't make flippant remarks about "putting your money where your mouth is." He will not be amused.

While last year's advance in the price of gold fully justified the actions of those investors who bought bullion as a hedge against the falling value of currency and the general economic and political uncertainties, which still prevail, it made life increasingly difficult for those who have to buy the metal for professional or industrial purposes.

These industrial uses of gold account for a larger proportion than you may think of the total supply. In 1978 the supplies of gold to the non-communist world amounted to some 1,752 tonnes. What may be described as investment demand absorbed less than half this total.

The larger share, of about 1,258 tonnes, was taken up by jewellery (1,007 tonnes), electronics (186 tonnes), dentistry (59 tonnes) and "other industrial-decorative uses" (76 tonnes).

This adds up to a big market, especially in terms of the rise in the price of the metal. For last year, Gold 1980 put the total Western supply a little higher at 1,763 tonnes, of which the non-investment sector took a smaller 902 tonnes.

The fall occurred almost entirely in the carat jewellery trade, which absorbed only 737 tonnes. Price resistance hit the High Street jewellers. Furthermore, Potts reckons that this year the jewellery share of the off-take could fall even further to around only 400 tonnes.

But he is talking about "new" gold. In Hutton Garden they will explain that this is distinct from the supplies arising from melted-down scrap which reach the jewellery trade. Nobody knows, or will say, just how large a portion of the total gold supply to the manufacturing industry is made up of this recycled metal.

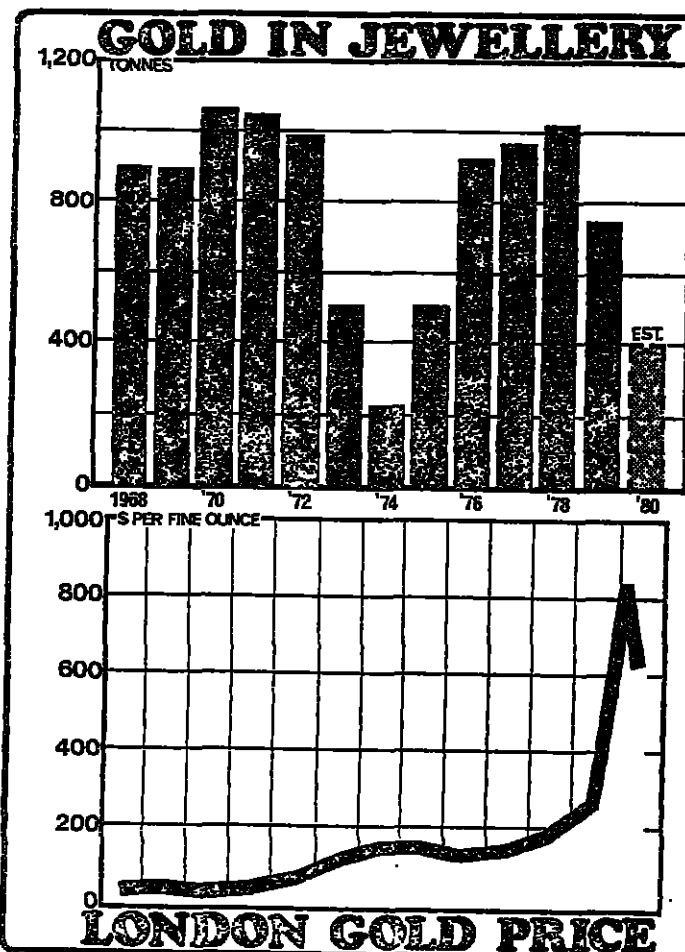
### Estimated

But it has been estimated that world-wide sales of gold from existing stocks of bullion and jewellery came to around 150 tonnes in the first three months of this year.

It has always been around, of course, but in past years it has made a relatively small contribution to the total supply. The big change came last year when soaring prices of gold and silver led to queues of sellers outside the offices of precious metal refiners, Johnson Matthey, eager to exchange old gold articles and dentistry silver teapots for hard cash. "The Garden" had never seen anything like it.

The refiners worked overtime to melt down and refine this weight of metal which is "old" only in its origins. But it is going into new jewellery and the estimate of only 400 tonnes of "new" gold going into jewellery this year does not include a probably much higher than usual amount of recycled "scrap" gold.

Just how much has the gold jewellery trade suffered? A fair guide comes from the assay offices in the UK which



report a decrease of some 50 per cent in the items they have hallmarked this year. The London Assay Office has been working a four-day week since mid-May and there have been redundancies in the Birmingham Assay Office.

The last time high prices hit the demand for gold from jewellery manufacturers was in 1974 when the rise in gold was largely a reflection of the weakness in the American dollar. This time gold has been going up in terms of almost all currencies.

Thus the world jewellery trade has been hit. The fall in sales of the metal to jewellery manufacturers on a world scale probably averages around 50 per cent. There is little sign of it recovering at the moment, although things are believed to be picking up a little in West Germany.

But world retail sales of gold jewellery have not suffered as much as sales of the metal to the jewellery manufacturers; the decline in hall-marking in Britain covers all precious metals, including silver, which soared even higher in price than gold before crashing back to earth.

While they are hardly buoyant, gold jewellery sales in the High Streets have been helped by the fact that a fair amount of old stocks acquired last year at lower gold prices had been accumulated and retail prices of these items have remained relatively stable.

The full reckoning may be yet to come, however. Having the benefit of these "old" stocks, retailers delayed re-ordering during the earlier part of this year, anticipating that the high bullion prices of up to \$850 per ounce were set for a sharp fall. They read the market correctly, but the worst of the fall proved to be short-lived.

New stocks at the retailers will therefore be more expen-

sive, and with the economic recession the pre-Christmas trade will prove to be a real testing time. Unless the gold price is about to enter a sharp downturn, which seems unlikely, it is difficult to be optimistic about trade prospects for the next few months at least.

Future demand by the electronics industry is difficult to assess. Broadly, gold is used for its electrical conductivity and non-corrosive properties in a variety of applications, notably in switching.

Cheaper alternative materials exist, such as the platinum group metal palladium, and it seems reasonable to expect some substitution, though it is claimed that the amount of gold used on, say, the printed circuit boards of a computer is so small that an increase in the price of gold should not make much difference to the total cost of the system.

### Reduced

And what of our dentist? Over the years the amount of gold used in dentistry has been reduced where possible, but for most of its dental applications in the non-cosmetic field there is no really satisfactory substitute. Gold teeth, of course, are relatively rare these days.

In Britain at least, the National Health Service recognises the importance of gold in dentistry and patients are not penalised for its cost. Private patients will probably have to pay a little more for the gold used but it still forms only a small part of the total treatment costs. The situation may be different in countries like West Germany, for example, which last year used 35 times as much gold for dentistry as did the UK. So, like his patients, our dentist will no doubt be able to grin and bear it.

Kenneth Marston  
Mining Editor

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# Concealed buffer for central banks

THE MOST publicised beneficiaries of the dramatic rise in the gold price at the turn of the year were the supplier countries and a few quick-footed speculators.

Yet the gains of the punters were trivial in comparison with the book profits of the central banks of the industrial world. The real value of their reserves soared, but the extent of the profit was often masked by a policy of valuing gold reserves at a generally unrealistic price.

It is most curious that central bankers have agonised for decades over the role to be played by gold in the international monetary system, and yet have failed to reach a consensus about how the commodity should be valued.

The effect has been to conceal a massive rise in international liquidity and a shift in the weight of reserves away from the developing countries and towards the industrialised nations. The IMF's objective of building up the SDR as a reserve asset at the expense of gold has been largely thwarted by the play of market forces.

Since the suspension of dollar/gold convertibility in 1971 central banks have applied a variety of prices to the valuation of their gold holdings. A few countries still use a figure close to the old Bretton Woods price of \$35 per ounce. Malta values its gold at \$49.99 per

ounce, the lowest of any central bank.

A much more common price is \$42.22 per ounce, an official rate established after the dollar devaluation of early 1973. The U.S., which despite substantial gold auctions during the past few years, still holds around a quarter of the world's gold reserves, continues to apply this figure to its holdings. Belgium, with around 4 per cent of reserves, is the other major gold holder to adopt this method.

The decision by the U.S. to persist with this highly anachronistic price is in part political. Throughout the 1960s it argued strongly for the demonetisation of gold, a position opposed by France in particular, and it has not abandoned this stance. To place a market value on its own gold holdings would be a tacit recognition of the growing importance of the metal in the international monetary system.

## Conversion

The official price accepted by the largest group of countries is 35 SDRs, though none of the central banks employing this conversion rate counts among the major gold holders. Of the seven central banks which together hold three-quarters of the world's gold reserves, all but Belgium and the U.S. convert at a price con-

siderably in excess of any official price. Those are West Germany (with 11.8 per cent of world reserves), France (10.1 per cent), Switzerland (8.3 per cent), Italy (8.2 per cent) and the Netherlands (5.4 per cent). The percentage figures, supplied by the IMF, are calculated on holdings at the end of September last year.

There is, however, little unanimity among these countries. Clearly, when the gold price fluctuates dramatically it would be impractical and even misleading for central banks to value their reserves according to the latest market price. None the less, there is a striking divergence between those countries such as France which revalue their holdings on a regular basis in the light of average market prices and those which like West Germany continually employ an artificial value.

The IMF, which abandoned the idea of an official gold price five years ago, now publishes information on both the level of reserves held by central banks and the methods used to value them. In August of last year, however, the IMF also began to publish figures for "total reserves minus gold," which at least appears to suggest that it is itself unable to determine an appropriate valuation. The picture is further complicated by the fact that while central banks hold their reserves

at a variety of valuations, they conduct transactions in gold at market prices. The U.S., for example, has sold gold at more than 10 times its own book price.

Similarly, when Italy used gold as collateral for a \$2bn loan from West Germany in 1974, the central banks of the two countries agreed on a valuation equivalent to 80 per cent of the then market price. The most dramatic recent example of such anomalies was the arrangement within the European Monetary system under which EEC countries exchanged 20 per cent of their gold and foreign exchange reserves for holdings of European currency units. This transaction increased the value of EEC reserves by 11bn SDR overnight as a result of the necessary gold revaluation.

## Confusing

The pattern of central bank gold valuation is not merely confusing; it also produces a quite unrepresentative picture of the balance of international reserve holdings. IMF figures show that, valuing gold at 35 SDR per ounce, the proportion of world reserves held by the developed world dropped from 79.6 per cent to 62.2 per cent between the end of 1969 and September 1979. By contrast, the proportion held by non-oil-producing less developed countries (LDCs) rose sharply from 15.2 to 20.9 per cent.

Applying a market value to gold creates a quite different impression, however. The figure for developed nations falls only slightly to 76.3 per cent while for non-oil LDCs there is a steeper drop to 13.4 per cent. The dramatic rise of the gold price towards the end of last year would of course have exaggerated this trend.

At the same time the rise in the gold price has reassessed the metal's importance in the international reserve structure. The strong increase in world trade over the past 20 years, when compared with the much slower growth in gold reserves, has given the impression that foreign exchange holdings, particularly dollars, have super-

## GOLD RESERVES—valued at \$400 per ounce

US	158.8
W. Germany	71.4
France	61.4
Italy	50.0
Switzerland	49.9
Netherlands	32.9
Belgium	25.6
Japan	14.5
UK	13.7
Portugal	13.3
Canada	13.0
Austria	12.7

Includes holdings in European Monetary Co-operation Fund

(FIGURES IN \$BIL)

SOURCE: IMF

# Mining shares prove good investments

HAVE YOU made your fortune in gold, or gold shares? Maybe not, but if you held either type of investment from the beginning of last year until, say, the earlier part of this July you must have done very nicely indeed.

Of course, there will have been others who have done even better—there always are—but let us look at three categories of gold investment: the metal itself, shares of the Australian and Canadian mines and shares of the South African mines. Then we might take a stab at picking the best course to follow now.

If you had plumped for the metal, the price at the beginning of 1979 was \$225 per troy ounce. It was around \$680 in the earlier part of this month, thus showing an increase of just over 200 per cent.

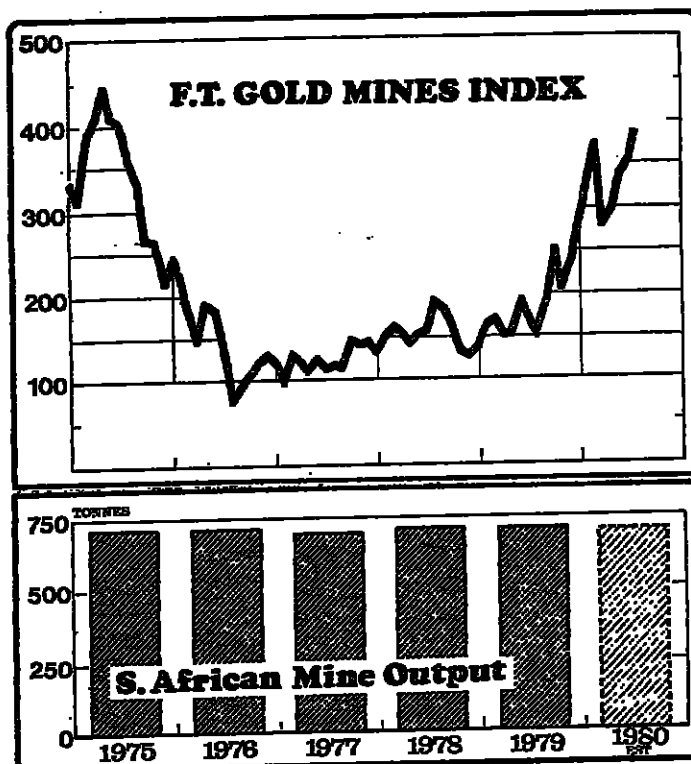
Inevitably, the performances of individual South African gold shares varied over the same period, but taking the FT Gold Mines index as a broad guide we find that it rose from 138 (in the days when the investment dollar premium applied to UK investors) to 374. Thus there was a gain of "only" 171 per cent.

## Generous

But, unlike gold bars, gold shares usually pay dividends and in the case of the South African issues, very generous dividends. If you take these dividends into account quite a few holders of gold shares will have done better than if they had bought bullion.

This is remarkable when you consider that UK shareholders had to face the loss of the investment premium in share prices when exchange controls were lifted in October last year. Then, too, there was the fact that part of the benefits of high gold prices on mine earnings were offset by the industry's trend towards the mining of the less profitable lower grade ore.

Sharply higher mine tax charges had to be countenanced which in South Africa, are geared to a sliding-scale formula which can take over 70 per cent



of a company's profits. Above all, the share market had to live with the ever-present African political risk and there were tremors in share prices towards the end of the Rhodesian war and, more recently, after the bomb attacks on South African oil installations.

What of the non-South African gold shares? Those in Canada have done well, of course, with Agnico-Eagle, for example, advancing from C\$6 to over C\$15 per share. But the most striking performance of all has been achieved by the handful of Australian gold shares, the number of which has now been swelled by the usual crop of gold exploration hopefuls.

Of the longer-established companies the little North Kalgoorlie (small, that is, by South African standards) outshone the rest of the field with a nine-fold advance in the price of its shares. Gold Mines of Kalgoorlie shares rose some seven times in value during the

period while Poseidon, the fallen "nickel wonder," emerged from the depths with a gold-inspired price rise of some 450 per cent.

What do we do now? Unless we expect a fresh rise in the price of gold, we sell all the bullion and shares and reinvest the proceeds elsewhere. There are, however, good grounds for expecting that gold will go higher but there is no means of telling how far the movement will extend.

## Minuscule

What is certain is that the price will have to stage a sizeable advance in order to justify the present inflated prices of the Canadian and, more especially, the Australian gold shares which are on a minuscule yield basis. Because a profit does not really exist until it is taken, it might now be prudent to realise a proportion of the big capital appreciation that is waiting to be realised on these shares.

South African gold shares, on the other hand, are giving dividend yields of up to about 20 per cent at current prices—and much more if the current payments are applied to the share prices of 18 months ago—while the industry is still increasing its distributions.

But the spectre of further political and social unrest in Africa remains and for this reason some profit-taking seems to be indicated. Many holders will find themselves in the position whereby the sale of part of a holding will more than recoup the original capital outlay and still leave them with continuing good dividend income on shares that have, in effect, cost nothing.

If those investors, wary of South African politics, are reluctant to reduce their exposure to gold, a neat compromise would be to reinvest part of the share sale proceeds in bullion. This way they would be protected to a large extent from any guerrilla action designed to damage the mines because while it would hit share prices it would also boost the price of the metal.

Kenneth Marston

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## FINANCE, LAND—Continued

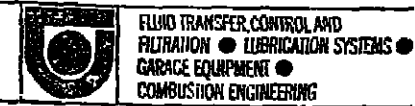
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**Tecalemit**  
to care for it



# FINANCIAL TIMES

Wednesday July 30 1980

## Iran crisis over choice of Premier

BY PATRICK COCKBURN IN TEHRAN

IRAN FACED a growing constitutional crisis yesterday as Parliament's determination to impose its own choice of a Prime Minister and Cabinet on President Abolhasan Bani-Sadr intensified. The clergy-dominated Islamic Republican Party (IRP), which has a majority in the Parliament, wants one of its hard-line leaders as Premier. So far the party has shown no inclination to compromise.

A commission of seven—five from the IRP-dominated Parliament and one delegate from the office of Iran's revolutionary leader, Ayatollah Khomeini, and one from the President's staff—is now to produce a list of candidates for Prime Minister to be submitted to the President.

But even this solution was thrown into doubt yesterday when Ayatollah Khomeini's office announced that it would send no delegate.

The crisis, the culmination of the struggle for power between President Bani-Sadr and the IRP, has overshadowed any discussion of the U.S. hostages whose fate, Ayatollah Khomeini has said, must be decided by Parliament.

The political paralysis of Parliament bodes ill for any discussion of their release. Asked what would happen about the hostages, Mr. Mehdi Bazargan, the former Premier, replied: "I don't even know what's going

to happen to me."

The selection of a new Government is "much more important than the hostage issue or anything else," Hojatoleslam Khomeini, Tehran's powerful spiritual leader, said yesterday.

As a result of tortuous negotiations over the last few weeks the IRP has already imposed Mr. Mustapha Mir-Salim, Deputy Interior Minister and a member of its central committee, on President Bani-Sadr.

But during a closed session of Parliament on Monday it became clear that many members of the IRP did not consider Mr. Mir-Salim tough enough. Some suggest their former presidential candidate,

Mr. Jalaluddin Farsi, should lead the new Cabinet despite the fact that he has said that he could not work with the President.

The bitterness of the faction fighting within the Parliament has already led to the resignation of one deputy, who complained of biased procedures and intimidation. Another was persuaded to withdraw his resignation.

The Militant Clergy of Tehran, an organisation which played a very significant role in opposition to the deceased Shah, has asked deputies "to stop playing party politics."

But it appears that the majority of the IRP have decided that now is the moment

to reduce Mr. Bani-Sadr to a purely ceremonial role. Two months ago, one of their party leaders in a secretly taped conversation said that the President should have the same status "as the King of England" and should spend his time handing out medals.

Given the erosion of the President's power over the last four months, it is likely that only the intervention of Ayatollah Khomeini on his side will balance the power of the IRP and produce a Prime Minister and Cabinet which the President would find acceptable.

Shah's funeral, Page 3; Editorial Comment, Page 20

THE LEX COLUMN

## Denmark opens the bulldog market

While British companies still consider the cost of fixed-rate sterling finance to be too high, some outsiders have no such inhibitions. So the sterling "Bulldog" foreign bond market, dead since the war, save for some scheduled territory issues, has reopened before any major corporate bond offerings have been made. Denmark is borrowing £75m for 25 years on a yield of 13½ per cent. It would be ironic if the UK corporate borrower, long crowded out by the profligacy of British Governments, were to be kept out in the cold by foreign official borrowers.

The new issue is structured to resemble a corporate loan stock rather than a Eurobond. It is in registered rather than bearer form, and it has been placed through a firm of stockbrokers (Greenwells in this case) rather than directly by the banking consortium. Bulldog bond commission rates are lower than Yankee bond market practice would have suggested, and much lower than on a Eurobond, where the borrower might end up paying 1½ per cent in fees against 1 per cent in this case. The issue is clearly aimed at traditional gilt-edged investors who may be worrying about where their next dose of 21st-century stock is coming from—it is even partly paid out of cash.

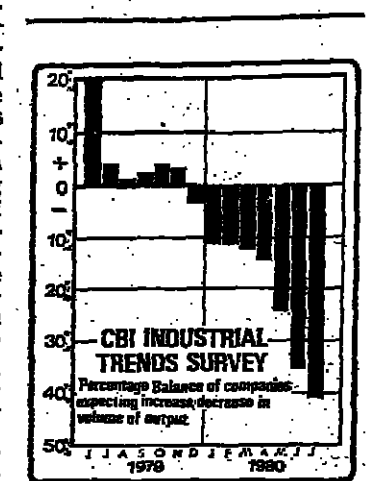
There are, however, some curious aspects to the NatWest figures. Bad and doubtful debt provision, largely specific, have more than trebled to £61.5m for the half-year. There seems to be a strong precautionary element here, rather than any actual wave of bankruptcies (Fodens apart) and it is hard to avoid the impression that there is some element of smoothing in the figures.

If provisions had stayed at last year's level NatWest would have reported some £260m—the sort of figure the new much-abashed analysts were projecting before the banking results season began. But this does not mean the analysts were right, because there is another major surprise in the surge in profits of the international side, contributing £84m against around £50m a year ago. Neither Midland or Lloyds achieved significant growth in international profits, whereas NatWest reports substantial rises in net interest income and in foreign exchange earnings. By deduction, it follows that domestic banking profits were well down.

If the international performance is not a fluke, there could be a further cushion against the worsening climate for domestic banking, while the scope for recovery at Lombard North Central must also be useful if interest rates fall. The yield on a one-fifth higher total dividend would be 8.7 per cent, and unlike Midland, NatWest is maintaining strong current cost cover.

**British Steel**  
The need to write down £424m of projects that have yet to be completed, within the overall £1.3bn write-off of fixed assets, highlights the commercial disaster of British Steel's previous

Index rose 3.8 to 489.7



Improved 3p to 353p.

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**Wilkinson Match**  
Nothing has become Wilkinson Match's management so well as the price which it has negotiated for the group's absorption by Allegheny Ludlum. Shareholders are now to be offered 187p, rather than 168p, per share, which values Wilkinson at perhaps 15 times current earnings; it looks as though the last 10p is intended to assure Allegheny a rather less controversial ride with the London investment community than it enjoyed in 1978.

Most shareholders will doubtless be delighted to take the money and with Allegheny good luck with the hybrid product of one of the most luckless conglomerate mergers ever blessed by the Monopolies Commission. That buyers of Swan Vesta matches should recently have been offered garden trowels at a discount is an eloquent testimony to the fundamental synergy that underlies Wilkinson Match.

**NatWest Bank**  
At £224.8m the pre-tax profits of National Westminster for the first six months follow more or less the pattern of Lloyds—they are higher than the figure for January-June, 1979, but are below the second half. They, therefore, look a good deal better than Midland's results, which failed to match up to either half of 1979, and spurred by the rise of more than a fifth in the interim dividend the share price

**Weather**  
UK TODAY  
OUTBREAKS of rain but becoming brighter. Temperatures near normal.

London, S.E., S.W. England, Wales  
Bright periods and scattered showers. Max. 22°C (72°F).

E. Anglia, E. Midlands, N. Wales  
Mainly cloudy with showers, becoming brighter. Max. 22°C (72°F).

E. N.E. England, E. Scotland  
Mainly cloudy with thundery showers or rain and occasional fog. Rather cool on coasts. Max. 21°C (70°F).

N.W., N. England, Lakes, W. Scotland, Ulster  
Mainly cloudy with thundery showers or rain. Max. 21°C (70°F).

N. Scotland  
Bright at first, becoming cloudy with showers or longer periods of rain. Max. 17°C (63°F).

Outlook: Showers and sunny intervals.

**WORLDWIDE**

Y'day  
Algeria S 25 77 Jersey R 18 61  
Alyria S 31 88 L.P.M. S 24 75  
Amst. S 25 77 Lisbon F 23 73  
Athens S 30 86 Locarno F 27 81  
Atrina S 28 75 London F 23 73  
Bari S 28 75 Luxembourg F 27 81  
Belfast S 26 76 Luxor S 38 100  
Belgrad S 24 75 Madrid S 23 73  
Belm. S 27 81 Milan S 28 86  
Borritz S 19 66 Metz S 28 82  
Birmingham S 26 76 Malta S 31 88  
Blackpool S 23 73 Mchestr. S 22 72  
Bordeaux S 24 75 Paris S 26 78  
Boulogne S 26 75 Moscow F 24 76  
Bristol S 22 72 Munich S 25 77  
Brussels S 27 81 Naples S 28 82  
Budapest S 22 72 Nuern. S 18 64  
Cardiff S 19 66 Nice S 24 75  
Cas'ca S 23 73 Oporto F 19 66  
Cologne F 25 77 Oslo S 27 81  
Cork S 24 75 Paris F 26 78  
Cebu S 30 86 Prague F 26 77  
Dublin S 16 61 Rangoon S 14 57  
Dunfermline S 16 64 Rome S 28 86  
Edinburgh S 16 64 St. Petersburg S 21 70  
Faro S 25 77 Salzburg S 26 78  
Frankfurt S 26 78 Stockholm S 25 77  
Geneva S 26 75 Strasbourg S 28 82  
Glasgow S 26 75 Tangier S 33 73  
Glasgow S 26 75 Tel Aviv S 28 82  
Glasgow S 26 75 Tunis S 32 90  
Helsinki S 28 82 Valencia S 30 86  
Innsbruck S 28 79 Venice S 27 81  
Istanbul S 16 64 Warsaw S 21 70  
Lisbon S 27 81 Zurich S 26 78  
C-Cloudy F-Fair S-Sunny B-Breeze  
S-Sunny SI-Sleet SN-Snow

**Equity and fixed interest stockmarkets** in many areas of the world have begun moving up in recent weeks as they look beyond the recession. With the prospect of declining interest rates, investors should capitalise now on the historically high returns (and prospects of capital gain), still available in gilts and international equities. These returns should be at least maintainable whilst the returns from deposits will fall with interest rates.

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**Performance**  
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Note that this year's Budget has favoured capital gain orientated unit trusts.

**Fidelity International Management Limited**  
Buckingham House, 62/63 Queen Street, London EC4R 1AD. Tel: 01-248 4891

Please send me full details on Fidelity Unit Trusts and your views on international stockmarkets.

Name (MR/MRS/MISS)  
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**Fidelity**

## £6m Government aid will go on Dunlop modernisation plans

BY JOHN ELLIOTT AND JOHN GRIFFITHS

THE ANNOUNCEMENT by Mrs. Thatcher yesterday of £6.1m aid for Dunlop is one of the largest packages of State industrial aid awarded to a single private sector company since the general election.

The company will use the money from the Department of Industry to help it modernise and rationalise its tyre operations in the UK.

The aid has been under discussion with the Industry Department for more than 18 months. The application has been regarded as highly controversial. But it was agreed recently and is believed to have been announced yesterday to enable the company to demonstrate the support it is receiving from the Government at a time when it is facing problems internationally.

Mrs. Thatcher was told about the aid as part of the briefing she received in advance of yesterday Commons' debate on the aid. She was also told about the aid as part of the briefing she received in advance of yesterday Commons' debate on the aid.

What the Prime Minister may not have known is that the aid application has a chequered

history. Early in 1979 the last Government's Industrial Development Advisory Board recommended that an application for about £23m should be turned down.

The Government then considered asking the National Enterprise Board, which believed Dunlop needed to raise a lot of fresh equity, to take a stake in the company. Dunlop refused to agree to this, and since then has had protracted negotiations with Industry Department officials about what it could receive.

The package which has been agreed gives it £2.55m of selective regional aid and £3.55m from the last Government's £150m Selective Investment Scheme. This scheme, aimed at increasing general industrial investment, closed for applications in June of last year but it is still making allocations to companies like Dunlop which lodged requests before then.

Dunlop says its £6.1m will help meet the cost of programmes to raise productivity and cut expenses.

Details of the programme are still being worked out with the Department, but it seems likely the focus of attention will be the Fort Dunlop plant in Birmingham. This makes a

wide range of truck and other tyres and has been earmarked for some time as needing more automation.

Dunlop's other UK tyre plants are at Washington, Co. Durham, already a fairly highly automated plant producing steel radial car tyres, and a smaller plant at Inchinnan, near Glasgow. Together they employ 8,000 people.

The latest proposals relate to a general reshaping of the company's operations which started at the end of 1978, around the time when the earlier request for financial aid was turned down.

Dunlop has already reorganised considerably under the pressures of over-capacity throughout Europe, a major factor in which has been the introduction of long-life steel radial tyres.

Early last year it closed its Speke plant on Merseyside, cutting 2,400 jobs. Another 240 jobs were lost at Inchinnan, and this year it announced it was cutting 600 at Fort Dunlop. Despite this, and a reorganisation of the tyre operations into four specialist divisions, Dunlop still lost £11m on its tyre operations last year.

Continued from Page 1

## Microchip plant

said. "No one can opt out of this responsibility."

Mr. James Callaghan opened the debate with a scathing attack on the Government's economic record.

His strategy was spreading mass unemployment, undermining industry and demoralising the country, he said.

The Opposition Leader warned the packed House: "Industry is now in danger of being sucked into a downward spiral." There was no evidence that it would be willing or able to modernise during the coming three years of recession.

"If the Government continues to dampen down demand, industry will emerge weaker than today, not stronger."

Mr. Callaghan challenged the Prime Minister to declare what level of unemployment the Government would tolerate before it changed its policies.

"The Government must not attempt to solve the nation's

problems on the backs of 2.5m unemployed."

Mrs. Thatcher should call another economic summit to take international action to stimulate trade, he said. If such a move could not be agreed, then efficient British industries would have to be temporarily protected by import controls while they modernised.

Such protection should be combined with trade aid for the developing world, Mr. Callaghan said. "If world trade does not expand, inevitably countries will drift into a protection war."

The Labour leader urged the Government to stimulate domestic demand. Monetary targets more clearly related to the rate of inflation would allow the Government to reduce both interest rates and the exchange rate. Public spending should be increased, he said, and North Sea oil revenue used for direct industrial assistance.

Mr. Malcolm Ford, chairman of BNOG (Development), has been given responsibility for exploration, procurement, contracts, security, general engineering, petroleum engineering and research.

Mr. Jerry Evans, currently managing director responsible for corporate policy development and international ventures, is to take charge of personnel, legal, secretarial, administrative, computer, build-

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## CBI gives recession warning

nificantly. But, says the CBI, although this may be encouraging for the rate of inflation, it has not been accompanied by a decline in increases of unit costs. This means more pressure on profit margins.

As many as 16 of the 44 individual industries covered by the survey report that they have accepted export orders at reduced prices during the past four months, and six expect to have to make further reductions.

Many companies' attempts to reduce the levels of stocks of finished goods have not been successful and five consecutive CBI surveys have now shown a steadily increasing number of companies saying their stocks are more than adequate.

land, and pipeline matters. Mr. Evans will also become the corporation's secretary at the end of September on the retirement of Mr. Leslie Croxall.

The Government still has to decide whether or not it will split the trading operations from BNOG's main exploration and production interests. A statement is also expected from Mr. David Howell, Energy Secretary, over plans to issue BNOG revenue bonds. It is not known whether the Government will inject private capital into BNOG.

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## Merchant banker joins BNOC board

BY RAY DAFTER, ENERGY EDITOR

THE British National Oil Corporation has appointed Mr. Roy Dantzie, a 36-year-old merchant banker, as a main board director responsible for finance and planning.

His appointment as finance director coincides with a managerial reshuffle within the state oil corporation, whose future structure is being considered by the Government.

Mr. Dantzie, a director of Samuel Montagu, will take up his appointment on August 8. He will work closely with Mr. Philip Shelbourne, the newly appointed chairman and chief executive, who was previously

chairman of Samuel Montagu. Mr. Dantzie will take charge of the corporation's financial, treasury, tax, insurance and planning interests.

He succeeds Mr. Alastair Morton, a banker formerly with the Samuel Montagu group, who designed from the BNOC board following Mr. Shelbourne's appointment. The two had many disagreements.

As a result of these moves the corporation has changed the responsibilities of a number of other senior executives. Mr. Ian Clark, an executive board member and chairman of

BNOC (Ventures), has also taken over responsibility for trading (an interest formerly headed by Mr. Morton) and public affairs.

Mr. Malcolm Ford, chairman of BNOG (Development), has been given responsibility for exploration, procurement, contracts, security, general engineering, petroleum engineering and research.

Mr. Jerry Evans, currently managing director responsible for corporate policy development and international ventures, is to take charge of personnel, legal, secretarial, administrative, computer, build-

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## Heavy second quarter loss for Lockheed

BY IAN HARGREAVES IN NEW YORK

LOCKHEED, the U.S. aerospace company rescued from bankruptcy by the U.S. Government a decade ago, plunged into its largest three-month loss for several years in the second quarter as productivity problems with its TriStar programme mounted.

The company had to write off \$70m on the L1011 TriStar programme in the quarter, taking total TriStar write-offs so far this year to \$128m.

These losses—which have been aggravated by a surge in interest charges caused by

higher rates in the U.S. and by increased holding of parts for the TriStar as production increases, more than offset the gains from Lockheed's profitable military business.

For the quarter, Lockheed had a net loss of \$26.6m on sales of \$1.3bn compared with a profit of \$9m on sales of \$982m in the same quarter a year earlier.

Lockheed's problem is that it is still struggling with an erratic flow of parts from its subcontractors. This, along with labour problems, has slowed production and seriously damaged productivity.

The result is that the more TriStars Lockheed builds—the number will be up from 13 last year to 26 this year—the more money it loses.

Mr. Roy Anderson, Lockheed's chairman, said that extended lead times still existed in several areas of TriStar production, and that the expected number of labour hours per aircraft had not decreased in line with predictions.

He said it was difficult to predict when Lockheed would overcome its problems.

Mr. Anderson has however

taken this line before, and there is growing doubt whether the TriStar will ever become profitable and, in the longer term, whether Lockheed will be able to afford to remain in civil aviation.

As Lockheed struggles, its most powerful competitor — Boeing — is pressing ahead with new projects.

Last year the TriStar caused Lockheed losses of \$188m before taxes, and the figure this year is likely to exceed \$300m. The 13-year-old programme has cost Lockheed well over \$1bn.

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